

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. ORGANISATION AND OPERATIONS

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

The Company is an investment holding company. Its subsidiaries are principally engaged in (i) design, assembly, manufacturing and distribution of timepieces, jewellery and leather & lifestyle products; (ii) licensing or assignment of brandnames or trademarks to third parties; (iii) trading of timepiece components, jewellery and consumer electronic products; (iv) distribution of branded timepieces, jewellery and leather & lifestyle products through franchisees under the franchising arrangement and (v) holding of investments.

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

2. PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). They have been prepared under the historical cost convention as modified by the revaluation of certain leasehold land and buildings and investments in non-trading and trading securities.

The HKICPA has issued a number of new or revised Hong Kong Financial Reporting Standards (“HKFRS”) and Hong Kong Accounting Standards (“HKAS”) (collectively referred to as “new HKFRSs”) which are effective for accounting periods beginning on or after 1st January, 2005.

During the year, the Group has adopted the following new HKFRSs:

HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKFRS 3	Business Combinations

The effect of adopting these new HKFRSs is set out below in Notes 2(e)(i) and (ii).

The Group has not early adopted other new HKFRSs except for those mentioned above in the accounts for the year ended 31st May, 2005.

The Group has already commenced an assessment of the impact of other new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st May.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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

The gain or loss on the disposal of a subsidiary is calculated by reference to the net assets at the date of disposal including the attributable amount of goodwill but does not include any attributable goodwill previously eliminated against reserves.

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

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

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

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

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

(ii) Associated companies

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

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and also goodwill (net of accumulated impairment losses) on acquisition.

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

(iii) Translation of foreign currencies

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

For the purpose of consolidation, the balance sheets of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

For equity investments in foreign subsidiaries made by means of long-term loans and intra-group deferred trading balances which are intended to be, for all practical purposes, as permanent as equity, such loans and intra-group balances will be treated as part of the Group's net investment in the foreign subsidiary. Exchange differences arising on such loans and intra-group balances will be dealt with as adjustments to reserves in the consolidated accounts.

An exchange difference which arises on an intra-group monetary item, whether short-term or long-term will not be eliminated against a corresponding amount arising on other intra-group balances because the monetary item represents a commitment to convert one currency into another and exposes the Group to a gain or loss through currency fluctuations. Accordingly, in the consolidated profit and loss account of the Group, such an exchange difference is recognised as income or an expense.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(c) Fixed assets

(i) Leasehold land and buildings

Leasehold land and buildings are stated at valuation less accumulated depreciation. Independent valuations are performed periodically with the last valuation performed on 31st May, 2005. In the intervening years, the Directors review the carrying value of the properties and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

(ii) Freehold land and buildings

Freehold land is not subject to depreciation and is stated at cost less accumulated impairment losses, while buildings situated thereon are stated at cost less accumulated depreciation and accumulated impairment losses.

(iii) Other fixed assets

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

(iv) Depreciation

Leasehold land and buildings are depreciated over the shorter of the remaining period of the respective lease and estimated useful life. Other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Freehold land	Nil
Buildings on freehold land	2% to 5%
Leasehold improvements	10% to 50%
Furniture and equipment	15% to 33 $\frac{1}{3}$ %
Motor vehicles	25%

(v) Gain or loss on disposal

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

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in liabilities recorded as appropriate under current and non-current liabilities. The finance charges are charged to the profit and loss account over the lease periods.

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

(ii) Operating leases

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

(e) Intangible assets

(i) Goodwill/negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiaries/associated companies/businesses at the date of acquisition.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each country of operation by each primary reporting segment.

Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill on acquisitions occurring on or after 1st January, 2001 is amortised using the straight-line method over estimated useful lives of fifteen to twenty years. Goodwill on acquisitions that occurred prior to 1st January, 2001 was written off against reserves in the year of acquisition or amortised over a period of fifteen years.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

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

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

With the adoption of HKFRS 3, amortisation of goodwill has been discontinued since 1st June, 2004, and the related accumulated amortisation brought forward is transferred and eliminated against the cost of the goodwill. As a result, the Group's profit for the year ended 31st May, 2005 was increased by approximately \$13,523,000. Goodwill previously written off against reserves will not be recognised in profit and loss account when all or part of the businesses to which the goodwill relates is disposed or when a cash-generating unit to which the goodwill relates becomes impaired. Goodwill is included in intangible assets and interests in associated companies at cost less accumulated impairment losses and subject to impairment testing at least annually.

Negative goodwill represents the excess of the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired over the cost of acquisition.

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

For acquisitions prior to 1st January, 2001, negative goodwill was taken directly to reserves on acquisition.

With the adoption of HKFRS 3, negative goodwill for acquisitions after 1st June, 2004, is recognised in profit and loss account immediately on acquisition. As a result, the Group's profit for the year ended 31st May, 2005 was increased by approximately \$36,154,000.

The carrying amount of negative goodwill previously recognised prior to 1st June, 2004, including that credited to the intangible assets and interests in associated companies, has been credited to the opening balance of retained profits. As a result, the Group's opening retained profits as at 1st June, 2004 were increased by approximately \$42,199,000 with the corresponding increase in the intangible assets and interests in associated companies of approximately \$40,813,000 and \$1,386,000, respectively and the Group's profit for the year ended 31st May, 2005 was decreased by approximately \$4,929,000.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(e) Intangible assets (Cont'd)

(ii) Trademarks

Trademarks are shown at historical cost or fair value. Trademarks with indefinite useful lives are carried at cost less accumulated impairment loss, if any. Trademarks with indefinite useful lives are not amortised but are tested for impairment.

On the first time adoption of HKAS 38, the Group reassessed the useful lives of previously recognised intangible assets. As a result of this assessment, the acquired trademarks of the Group were classified as indefinite-lived intangible assets in accordance with HKAS 38. This conclusion is supported by the fact that the trademarks legal rights are capable of being renewed indefinitely at insignificant cost and therefore are perpetual in duration. In addition, as the trademarks are related to well known and long established luxury and fashion consumer brands, based on the expected future financial performance of the Group, they are expected to generate positive cash flows indefinitely. This view is supported by LCH (Asia-Pacific) Surveyors Limited, an independent professional valuer, who has been appointed by the Group to perform an assessment of the useful lives of the trademarks in accordance with the requirements set out in HKAS 38. Having considered the factors specific to the Group, the valuer considered that the trademarks should be regarded as an intangible asset with an indefinite useful life. Since 1st June, 2004, the amortisation of trademarks has been discontinued and accordingly, the Group's profit for the year ended 31st May, 2005 was increased by approximately \$20,006,000. Such change was accounted for as a change in accounting estimate which was reflected in the accounts prospectively. Under HKAS 38, the Group re-evaluates the useful lives of the trademarks each year to determine whether events or circumstances continue to support the view of indefinite useful life for the assets.

In accordance with HKAS 36, the Group completed its annual impairment test for the trademarks by comparing their recoverable amounts to their carrying amounts as at 31st May, 2005. The Group appointed LCH (Asia-Pacific) Surveyors Limited, independent professional valuer, to conduct valuations of the trademarks based on value-in-use calculation. The resulting values of the trademarks as at 31st May, 2005 were significantly higher than their carrying amounts.

The valuations use cash flow projections based on financial estimates covering a twelve-month period, expected royalty rates deriving from the trademarks in the range of 6% to 10% and a discount rate of 10%. The cash flows are extrapolated using a steady long-term growth rate of 3.5% to 6%. This growth rate does not exceed the long-term average growth rate for luxury consumer markets in which the Group operates. The Directors have considered the above assumptions and valuations and also taken into account the business development going forward and the strategic distribution expansion worldwide. In the opinion of the Directors, there is no indication of impairment in the carrying amounts of the trademarks. The Directors believe that any reasonably foreseeable change in any of the above key assumptions would not cause the aggregate carrying amounts of the trademarks to exceed the aggregate recoverable amounts.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(e) Intangible assets (Cont'd)

(iii) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of five years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(iv) Other intangible assets

Other intangible assets represent (1) costs of licences acquired from third parties, which have a definite useful life and are amortised using the straight-line method over their estimated useful lives, but not exceeding twenty years; (2) costs of acquiring know-how of businesses which are amortised using the straight-line method over their estimated useful lives of fifteen years; and (3) leasehold rights which are transferrable upon surrender of certain tenancies held by the Group and are amortised using the straight-line method over their estimated useful lives, but not exceeding twenty years.

(f) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised immediately in the profit and loss account for the amount by which the asset's carrying amount exceeds its recoverable amount except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(g) Investments in securities

(i) Non-trading securities

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

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

(ii) Trading securities

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

(h) Inventories

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

(i) Accounts receivable

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

(j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(k) Provisions

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

(i) Warranty provision

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

(ii) Restructuring provisions

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

(l) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) Profit sharing and bonus plans

The expected cost of profit sharing and bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(I) Employee benefits *(Cont'd)*

(iii) Pension obligations

The Group operates a number of defined benefits plans and a defined contribution plan throughout the world. The defined benefits plans are unfunded. The assets of the defined contribution plan are held in separate trustee — administered funds. The defined contribution plan is funded by payments from employees and by the relevant Group companies.

The Group's contributions to the defined contribution plan are expensed as incurred and are reduced by contributions forfeited by those employees who leave the plan prior to vesting fully in the contributions.

For defined benefits plans, pension costs are assessed using the projected unit credit method. The cost of providing pensions is charged to the profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans each year. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses are recognised over the average remaining service lives of employees. Past service costs are recognised as an expense on a straight-line basis over the average period until benefits become vested.

(m) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the accounts and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax assets also arise from unused tax losses and unused tax credits. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arose from goodwill (or negative goodwill) or from initial recognition of assets and liabilities in a transaction (other than in a business combination) that affects neither the taxable profit nor the accounting profit.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(m) Taxation *(Cont'd)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax assets and liabilities are not discounted. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group has the legally enforceable right and intends to settle its current tax assets and liabilities on net basis.

(n) Contingent liabilities and contingent assets

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

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

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

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

(o) Turnover

Turnover represents (i) gross invoiced sales, net of discounts and returns; (ii) income from licensing or assignment of brandnames or trademarks; (iii) commission income from trading business; and (iv) inspection service fee income.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(p) Revenue recognition

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

- (i) Sale of goods
Sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to customers which generally coincides with the time when the goods are delivered to the customers and title has passed.
- (ii) Income from licensing of brandnames or trademarks
Income from licensing of brandnames or trademarks is recognised on an accrual basis in accordance with the substance of the relevant agreements.
- (iii) Income from assignment of brandnames or trademarks
Income from assignment of brandnames or trademarks is recognised when the risks and rewards of the ownership have been transferred to customers.
- (iv) Commission income
Commission income relating to trading business is recognised when the related sourcing and quality support services are rendered.
- (v) Franchising income
Franchising income is recognised when the right to receive payment is established.
- (vi) Inspection service income
Inspection service income is recognised when the related services are rendered.
- (vii) Interest income
Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.
- (viii) Rental income
Rental income is recognised on a straight-line basis over the period of the relevant leases.
- (ix) Dividend income
Dividend income is recognised when the right to receive payment is established.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(q) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(r) Segment reporting

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

In respect of geographical segment reporting, turnover and segment results are based on the destination of delivery of merchandise. Total assets and capital expenditure are based on where the assets are located.

(s) Off-balance sheet financial instruments

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

Financial instruments undertaken for dealing purposes which consist of written currency options, interest rate forwards and swaps are marked to market and the gain or loss arising therefrom is recognised in the profit and loss account.

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

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

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in (i) design, assembly, manufacturing and distribution of timepieces, jewellery and leather & lifestyle products; (ii) licensing or assignment of brandnames or trademarks to third parties; (iii) trading of timepiece components, jewellery and consumer electronic products; (iv) distribution of branded timepieces, jewellery and leather & lifestyle products through franchisees under the franchising arrangement and (v) holding of investments.

(a) Primary reporting format — business segments

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

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

- Timepieces — design, assembly, manufacturing, distribution and trading of timepieces and timepiece components
- Jewellery — design, assembly, manufacturing, distribution and trading of jewellery products
- Leather & lifestyle — design, assembly, manufacturing, distribution and trading of leather & lifestyle products
- Investments — investments in strategic investments and other trading and non-trading securities. Strategic investments include investments in unlisted securities and closed-end funds which could bring medium or long-term synergetic benefits to the Group's businesses such as strategic alliance and partnership with various distribution business in Asia for furtherance of its business penetration in the region.

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. TURNOVER AND SEGMENT INFORMATION (Cont'd)

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

	Year ended 31st May, 2005					
	Timepiece products \$'000	Jewellery products \$'000	Leather & lifestyle products \$'000	Investments \$'000	Eliminations \$'000	Group \$'000
Turnover	1,735,909	851,352	1,129,445	—	—	3,716,706
Inter-segment revenue	18,231	7,666	7,440	—	(33,337)	—
Dividend income	—	—	—	1,753	—	1,753
Segment results	119,728	94,406	75,725	28,752	—	318,611
Finance costs						(93,507)
Profit before share of profit/(loss) of associated companies						225,104
Share of profit/(loss) of associated companies						9,468
Profit before taxation						234,572
Taxation						2,818
Profit after taxation						237,390
Minority interests						(26,695)
Profit attributable to shareholders						210,695
Segment assets	1,410,827	1,162,527	1,642,787	528,194	—	4,744,335
Interests in associated companies	161,410	(58)	88	—	—	161,440
Total assets						4,905,775
Segment liabilities	(1,522,684)	(653,377)	(705,322)	—	—	(2,881,383)
Total liabilities						(2,881,383)
Capital expenditure	110,272	12,724	412,768	—	—	535,764
Depreciation	21,399	8,540	22,301	—	—	52,240
Amortisation of intangible assets	20,294	2,132	3,053	—	—	25,479
Amortisation of negative goodwill	—	—	—	—	—	—
Write-back of provision for bad debts	44	339	—	—	—	383
Bad debt expense	5,068	2,690	4,080	—	—	11,838
Write-back of provision for inventory	14,845	22,832	1,724	—	—	39,401
Provision for inventory	2,684	—	9,705	—	—	12,389

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. TURNOVER AND SEGMENT INFORMATION (Cont'd)

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

	Year ended 31st May, 2004					
	Timepiece products \$'000	Jewellery products \$'000	Leather & lifestyle products \$'000	Investments \$'000	Eliminations \$'000	Group \$'000
Turnover	1,651,638	977,633	884,163	—	—	3,513,434
Inter-segment revenue	13,924	14,130	7,273	—	(35,327)	—
Dividend income	—	—	—	4,576	—	4,576
Segment results	94,480	85,924	45,348	2,897	—	228,649
Finance costs						(91,842)
Profit before share of profit/(loss) of associated companies						136,807
Share of profit/(loss) of associated companies						5,088
Profit before taxation						141,895
Taxation						15,609
Profit after taxation						157,504
Minority interests						(15,620)
Profit attributable to shareholders						141,884
Segment assets	1,671,346	1,022,451	872,505	340,242	—	3,906,544
Interests in associated companies	130,381	(59)	319	—	—	130,641
Total assets						4,037,185
Segment liabilities	(1,287,847)	(590,984)	(575,122)	—	—	(2,453,953)
Total liabilities						(2,453,953)
Capital expenditure	126,943	93,115	1,531	—	—	221,589
Depreciation	22,591	10,225	19,355	—	—	52,171
Amortisation of intangible assets	25,206	9,289	10,968	—	—	45,463
Amortisation of negative goodwill	—	—	2,413	—	—	2,413
Write-back of provision for bad debts	74	—	825	—	—	899
Bad debt expense	16,067	2,217	1,671	—	—	19,955
Write-back of provision for inventory	22,326	5,435	39,086	—	—	66,847
Provision for inventory	—	—	—	—	—	—

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(b) Secondary reporting format — geographical segments

The Group's operations are mainly located in Europe, Asia Pacific and America.

In determining the Group's geographical segments, turnover and results attributed to the segments are based on the destination of delivery of merchandise. Segment assets and capital expenditure are based on geographical locations of assets.

	Year ended 31st May, 2005			At 31st May, 2005
	Turnover \$'000	Segment results \$'000	Capital expenditure \$'000	Total assets \$'000
Europe	2,751,139	245,714	355,232	2,414,602
America	156,161	(4,956)	5,837	84,625
Asia Pacific	809,406	77,853	174,695	2,245,108
	3,716,706	318,611	535,764	4,744,335
Interests in associated companies				161,440
Total assets				4,905,775
	Year ended 31st May, 2004			At 31st May, 2004
	Turnover \$'000	Segment results \$'000	Capital expenditure \$'000	Total assets \$'000
Europe	2,431,755	176,526	206,475	1,741,421
America	130,868	(3,181)	3,074	69,524
Asia Pacific	950,811	55,304	12,040	2,095,599
	3,513,434	228,649	221,589	3,906,544
Interests in associated companies				130,641
Total assets				4,037,185

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

4. OTHER REVENUES

	2005 \$'000	2004 \$'000
Interest income	46,858	34,303
Dividend income	1,753	4,576
Rental income, net of outgoings	5,806	2,288
Management fees	2,667	1,464
Gain on disposal of investments in non-trading securities, net	26,988	881
Gain on partial disposal of interest in an associated company	—	730
Gain on disposal of interest in an associated company	—	5,198
Gain on disposal of fixed assets	—	8,675
Gain on revaluation of listed trading securities	12	65
Gain on disposal of intangible assets	176	—
Gain on acquisition of subsidiaries (<i>Note 30(c)</i>)	31,247	—
Gain on acquisition of additional interest in a subsidiary	4,907	—
Gain on partial disposal of interest in a subsidiary (<i>Note 30(e)(ii)</i>)	3,943	—
Gain on revaluation of fixed assets	990	—
Franchising income	—	32,445
Redemption premium received on maturity of equity-linked notes	14,416	5,896
Others	16,243	14,974
	156,006	111,495

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

5. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2005 \$'000	2004 \$'000
Crediting:		
Interest income from		
- associated companies	88	194
- bank deposits	2,263	2,552
- promissory notes	37,333	29,418
- equity-linked notes	2,855	1,449
- others	4,319	690
Amortisation of negative goodwill	—	2,413
Dividend income from		
- listed non-trading securities	1,753	286
- unlisted non-trading securities	—	4,290
Redemption premium received on maturity of equity-linked notes	14,416	5,896
Rental income, net of outgoings	5,806	2,288
Gain on disposal of investments in listed non-trading securities	26,988	—
Gain on disposal of investments in unlisted non-trading securities	—	881
Gain on revaluation of listed trading securities	12	65
Gain on partial disposal of interest in a subsidiary (Note 30(e)(ii))	3,943	—
Gain on disposal of a subsidiary	—	8
Gain on partial disposal of interest in an associated company	—	730
Gain on disposal of interest in an associated company	—	5,198
Gain on disposal of fixed assets	—	8,675
Gain on revaluation of fixed assets	990	—
Gain on disposal of intangible assets	176	—
Gain on acquisition of subsidiaries (Note 30(c))	31,247	—
Gain on acquisition of additional interest in a subsidiary	4,907	—
Franchising income	—	32,445
Repairing income	—	224
Write-back of provision for inventory	39,401	66,847
Write-back of provision for bad debts	383	899

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

5. OPERATING PROFIT (Cont'd)

	2005 \$'000	2004 \$'000
Charging:		
Staff costs (including Directors' emoluments) (Note 11)	784,042	709,833
Depreciation on		
- owned fixed assets	51,772	51,673
- leased fixed assets	468	498
Loss on disposal of fixed assets	365	—
Loss on disposal of intangible assets	—	127
Amortisation of intangible assets (Note 14)	25,479	45,463
Amortisation of goodwill/negative goodwill arising on acquisition of associated companies, net	—	7,880
Loss on disposal of subsidiaries (Note 30(e)(i))	3,288	—
Loss on deemed disposal of interest in a subsidiary	30,549	3,429
Loss on dissolution of unlisted non-trading securities	—	2,625
Auditors' remuneration		
- current year	8,143	8,874
- prior year under-provision	481	6,807
Operating leases		
- land and buildings	110,306	76,763
- hire of furniture and equipment	23,153	24,865
Provision for inventory	12,389	—
Bad debt expense	11,838	19,955
Effect of changes in exchange rates (a)	17,188	11,725

- (a) Since the acquisition of Junghans Uhren GmbH ("Junghans Germany") in 2000, a Euro-denominated inter-company loan of approximately EUR62 million was accounted for part of the Group's quasi-equity investment in Junghans Germany and no repayment had been made by Junghans Germany up to 31st May, 2002. Commencing from 1st June, 2002, due to the positive development and the profitability of Junghans Germany, the Group considers that the inter-company loan is more appropriately designated as a monetary item that requires a commitment to convert the Euro dollars to Hong Kong dollars and therefore exposes the Group to a gain or loss through currency fluctuations. Accordingly, a total exchange gain of \$4,974,000, (2004: \$11,154,000) was recognised by the Group in accordance with its accounting policy (Note 2(b)(iii)), as a result of the retranslation of the remaining outstanding balance of approximately EUR37 million (2004: EUR36 million) at the exchange rate ruling at the balance sheet date.

During the year, the Group has bought and sold certain foreign currency options from/to commercial banks. At 31st May, 2005, the Group's outstanding written foreign currency options with a notional principal value of EUR106,560,000 (2004: EUR71,600,000), JP¥430,000,000 (2004: JP¥118,640,000), CHF1,600,000 (2004: \$Nil) and \$Nil (2004: US\$2,000,000) equivalent were marked to market in accordance with the Group's accounting policy on currency options (Note 2(s)) resulting in an unrealised exchange loss of approximately \$1,796,000 (2004: a gain of \$9,400,000).

The remaining amount of approximately \$20,366,000 (2004: \$32,279,000) was related to net losses arising from other foreign currency transactions and translations.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

6. FINANCE COSTS

	2005 \$'000	2004 \$'000
Interest on bank borrowings		
- wholly repayable within five years	60,990	54,667
- not wholly repayable within five years	1,318	1,345
Interest on other loans and notes payable		
- wholly repayable within five years	2,066	8,280
- not wholly repayable within five years	33	15
Interest element of finance leases	1,182	1,200
Interest on convertible bonds	551	999
Interest on advances from associated companies	287	—
Bank charges	27,080	25,336
	93,507	91,842

7. TAXATION

(a) The amount of taxation (credited)/charged to the consolidated profit and loss account represented:

	2005 \$'000	2004 \$'000
The Company and its subsidiaries		
Current taxation:		
Hong Kong profits tax		
- Provision for the year	2,640	13,535
- Over-provision in prior years	(6,426)	(4,534)
Overseas taxation		
- Provision for the year	4,084	6,489
- Under/(Over)-provision in prior years	2,004	(1,674)
Deferred taxation (<i>Note 15</i>)		
- Recognised during the year	(5,338)	(28,203)
	(3,036)	(14,387)
Share of taxation attributable to associated companies:		
Hong Kong profits tax	301	(1,297)
Overseas taxation	(83)	75
	(2,818)	(15,609)

Hong Kong profits tax has been provided at 17.5% (2004: 17.5%) on the estimated assessable profit arising in or derived from Hong Kong for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year provided by subsidiaries and associated companies with overseas operations at the rates of taxation prevailing in the countries in which these subsidiaries and associated companies operated.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

7. TAXATION (Cont'd)

(b) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the domestic profits tax rate of the Company as follows:

	2005 \$'000	2004 \$'000
Profit before taxation	234,572	141,895
Tax at the domestic profits tax rate of 17.5% (2004: 17.5%)	41,050	24,832
Tax effect of income not subject to taxation	(58,421)	(61,412)
Tax effect of expenses that are not deductible in determining taxable profit	15,423	14,736
Tax effect of utilisation of tax losses not previously recognised	(390)	(4,567)
Tax effect of tax losses not recognised	13,041	24,507
Tax effect of other temporary differences not recognised	304	5,390
Unutilised losses recognised	—	(1,594)
Over-provision in prior years	(4,422)	(6,208)
Effect of different tax rates of subsidiaries and associated companies operating in other jurisdictions	(6,814)	(6,938)
Others	(2,589)	(4,355)
Tax income for the year	(2,818)	(15,609)

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders included a profit of approximately \$73,915,000 of the Company (2004: \$1,348,000).

9. DIVIDENDS

	2005 \$'000	2004 \$'000
Interim, paid, of 2.50 cents (2004: 2.00 cents) per ordinary share	30,830	23,407
Final, proposed, of 3.50 cents (2004: 2.50 cents) per ordinary share	44,595	29,427
	75,425	52,834

During the year, an interim dividend of approximately \$30,830,000 (2004: \$23,407,000) was declared and paid on 30th March, 2005.

At an annual general meeting to be held on 17th November, 2005, the Directors will recommend a final dividend of 3.50 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in the accounts, but will be reflected as an appropriation of retained profits for the year ending 31st May, 2006, if approved by shareholders at the said meeting.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

10. EARNINGS PER SHARE

(a) Basic earnings per share

The basic earnings per share was calculated based on the consolidated profit attributable to shareholders for the year of approximately \$210,695,000 (2004: \$141,884,000) and the weighted average number of ordinary shares of approximately 1,203,081,000 (2004: 1,149,288,000) in issue during the year.

(b) Diluted earnings per share

The diluted earnings per share was calculated based on the adjusted consolidated profit attributable to shareholders for the year of approximately \$211,034,000 (2004: \$140,341,000) and the weighted average number of ordinary shares of approximately 1,287,629,000 (2004: 1,222,494,000) that would be in issue having been adjusted for the effects of all dilutive potential ordinary shares issuable during the year.

(c) Reconciliation

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

	2005 \$'000	2004 \$'000
Profit attributable to shareholders used in calculating basic earnings per share	210,695	141,884
Dilutive potential effect in the earnings of a subsidiary in respect of convertible bonds of the subsidiary	—	(2,135)
Interest savings in respect of convertible bonds	339	592
Profit attributable to shareholders used in calculating diluted earnings per share	211,034	140,341

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

	2005	2004
Weighted average number of ordinary shares used in calculating basic earnings per share	1,203,081,000	1,149,288,000
Dilutive potential effect in respect of		
- convertible bonds	84,530,000	73,175,000
- share options of the Company	18,000	31,000
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,287,629,000	1,222,494,000

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

11. STAFF COSTS (INCLUDING DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS)

	2005 \$'000	2004 \$'000
Wages and salaries	773,525	692,674
Pension costs		
- Defined benefits plans (Note 27 (b))	7,662	14,398
- Defined contribution plan (Note 27 (a))	3,310	3,060
Less: Refund of forfeited contributions (Note 27 (a))	(455)	(299)
	784,042	709,833

12. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Directors' emoluments

- (i) The aggregate amount of emoluments payable to the Directors of the Company during the year was as follows:

	2005 \$'000	2004 \$'000
Fees		
- Executive Directors	—	—
- Non-executive Directors	400	—
Other emoluments for Executive Directors		
- Basic salaries, housing allowances, other allowances and benefits in kind	11,283	9,516
- Contributions to pension schemes	607	542
- Bonuses *	200	260
Other emoluments for Non-executive Directors	—	—
	12,490	10,318

* The Directors were entitled to a discretionary bonus.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(a) **Directors' emoluments (Cont'd)**

(ii) The emoluments of the Directors fell within the following bands:

	Number of directors	
	2005	2004
Executive Directors -		
\$500,001 — \$1,000,000	1	1
\$1,000,001 — \$1,500,000	1	—
\$1,500,001 — \$2,000,000	1	1
\$2,000,001 — \$2,500,000	1	1
\$5,500,001 — \$6,000,000	—	1
\$6,000,001 — \$6,500,000	1	—
	5	4
Non-executive Directors -		
\$Nil - \$1,000,000	3	3

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

(b) **Five highest paid individuals**

(i) The five individuals whose emoluments were the highest in the Group for the year included two (2004: two) Directors whose emoluments were set out in the analysis presented above. The emoluments payable to the remaining three (2004: three) individuals during the year were analysed below:

	2005 \$'000	2004 \$'000
Basic salaries, housing allowances, other allowances and benefits in kind	3,155	4,533
Bonuses	1,417	1,024
Contributions to pension schemes	95	55
Compensation for loss of office	992	—
	5,659	5,612

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(b) Five highest paid individuals (Cont'd)

- (ii) The emoluments of the aforementioned three (2004: three) non-director employees fell within the following bands:

	Number of individuals	
	2005	2004
\$1,500,001 - \$2,000,000	2	2
\$2,000,001 - \$2,500,000	1	1
	3	3

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

13. FIXED ASSETS

Group	Freehold land and buildings \$'000	Leasehold land and buildings \$'000	Leasehold improvements \$'000	Furniture and equipment \$'000	Motor vehicles \$'000	Total \$'000
Cost or valuation						
At 1st June, 2004	91,034	30,570	47,700	495,900	7,657	672,861
Additions	935	—	31,999	33,628	415	66,977
Acquisition of subsidiaries	4,538	—	67,481	56,524	209	128,752
Revaluation	—	10,230	—	—	—	10,230
Disposals	—	(1,300)	(5,843)	(84,311)	(1,357)	(92,811)
Disposals of subsidiaries	—	—	—	(2,378)	—	(2,378)
Partial disposal of interest in a subsidiary	—	—	(2,916)	(6,022)	—	(8,938)
Exchange adjustments	1,162	—	(6,388)	171	43	(5,012)
At 31st May, 2005	97,669	39,500	132,033	493,512	6,967	769,681
Representing:						
At cost	97,669	—	132,033	493,512	6,967	730,181
At 2005 valuation	—	39,500	—	—	—	39,500
At 31st May, 2005	97,669	39,500	132,033	493,512	6,967	769,681
Accumulated depreciation and impairment losses						
At 1st June, 2004	31,208	699	29,472	384,500	4,616	450,495
Charge for the year	3,458	708	8,139	38,314	1,621	52,240
Revaluation	—	(1,360)	—	—	—	(1,360)
Disposals	—	(47)	(5,486)	(82,332)	(1,039)	(88,904)
Disposals of subsidiaries	—	—	—	(2,264)	—	(2,264)
Partial disposal of interest in a subsidiary	—	—	(2,441)	(5,701)	—	(8,142)
Exchange adjustments	611	—	(3,307)	1,701	(9)	(1,004)
At 31st May, 2005	35,277	—	26,377	334,218	5,189	401,061
Net book value						
At 31st May, 2005	62,392	39,500	105,656	159,294	1,778	368,620
At 31st May, 2004	59,826	29,871	18,228	111,400	3,041	222,366

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

13. FIXED ASSETS (Cont'd)

Notes:

- (a) All fixed assets are carried at cost less accumulated depreciation and accumulated impairment losses, except for the leasehold land and buildings which were stated at valuation.

The leasehold land and buildings situated in Hong Kong were revalued on 31st May, 2005 by LCH (Asia-Pacific) Surveyors Limited, independent professional valuers, on an open market value basis. Had those leasehold land and buildings been carried at cost less accumulated depreciation, the net book value of the leasehold land and buildings at 31st May, 2005 would have been approximately \$29,085,000 (2004: \$30,609,000).

At 31st May, 2005, the aggregate property revaluation reserve was approximately \$9,753,000 (2004: \$2,017,000). Surplus on valuation, amounts credited to retained profits upon disposal of fixed assets and profit and loss account during the year amounted to approximately \$8,746,000, \$1,010,000 and \$990,000 respectively.

- (b) The net book value of land and buildings is analysed as follows:

	2005 \$'000	2004 \$'000
In Hong Kong, held on:		
Leases of over 50 years	—	1,273
Leases of between 10 to 50 years	39,500	28,598
Outside Hong Kong, held on:		
Freehold	62,392	59,826
	101,892	89,697

- (c) The net book value of furniture and equipment and motor vehicles held under finance leases at 31st May, 2005 amounted to approximately \$975,000 (2004: \$1,386,000) and \$Nil (2004: \$149,000) respectively.
- (d) At 31st May, 2005, certain freehold land and buildings with an aggregate net book value of approximately \$53,013,000 (2004: \$38,478,000) were pledged as security for banking facilities granted to certain subsidiaries of the Group in Europe (Note 32(b)).

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

14. INTANGIBLE ASSETS

Group

	Licences and trademarks \$'000	Development costs \$'000	Know-how \$'000	Leasehold rights \$'000	Goodwill \$'000	Negative goodwill \$'000	Total \$'000
Cost or valuation							
At 1st June, 2004	441,372	48,684	28,830	—	133,926	(43,226)	609,586
Additions	163,341	4,940	—	—	—	—	168,281
Acquisition of subsidiaries	1,298	—	—	84,456	—	—	85,754
Acquisition of additional interest in a subsidiary (a)	—	—	—	—	86,000	—	86,000
Disposals	(9,429)	(530)	—	(661)	—	—	(10,620)
Disposals of subsidiaries	—	(2,848)	—	—	—	—	(2,848)
Partial disposal of interest in a subsidiary	—	(501)	—	—	—	—	(501)
Transfer from accumulated amortisation upon adoption of HKFR3	—	—	—	—	(9,378)	—	(9,378)
Derecognised pursuant to HKFRS 3	—	—	—	—	—	43,226	43,226
Write-off	—	(1,687)	—	—	—	—	(1,687)
Exchange adjustments	(1,542)	577	133	(3,256)	2,130	—	(1,958)
At 31st May, 2005	595,040	48,635	28,963	80,539	212,678	—	965,855
Accumulated amortisation							
At 1st June, 2004	124,129	30,461	9,882	—	9,056	(2,413)	171,115
Charge for the year	9,012	13,985	1,910	572	—	—	25,479
Disposals	(9,424)	(519)	—	(250)	—	—	(10,193)
Disposals of subsidiaries	—	(1,667)	—	—	—	—	(1,667)
Partial disposal of interest in a subsidiary	—	(495)	—	—	—	—	(495)
Transfer to cost upon adoption of HKFRS3	—	—	—	—	(9,378)	—	(9,378)
Derecognised pursuant to HKFRS 3	—	—	—	—	—	2,413	2,413
Write-off	—	(1,687)	—	—	—	—	(1,687)
Exchange adjustments	(330)	178	(3)	1	322	—	168
At 31st May, 2005	123,387	40,256	11,789	323	—	—	175,755
Net book value							
At 31st May, 2005	471,653	8,379	17,174	80,216	212,678	—	790,100
At 31st May, 2004	317,243	18,223	18,948	—	124,870	(40,813)	438,471

Notes:

- In June 2004, the Group acquired additional 10% equity interest in a subsidiary and the resultant goodwill is attributable to the potential of radio-controlled business.
- The net book value of a software system amounting to approximately \$36,135,000 (2004: \$42,291,000) included under intangible assets was held under finance leases at 31st May, 2005.
- At 31st May, 2005, certain leasehold rights with an aggregate net book value of approximately \$26,590,000 were pledged as security for banking facilities granted to a subsidiary of the Group. (*Note 32(b)*)

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. DEFERRED TAX ASSETS/(LIABILITIES)

(a) The movements on deferred tax assets/(liabilities) were as follows:

	Group	
	2005 \$'000	2004 \$'000
Beginning of year	100,921	72,574
Exchange adjustments	(747)	144
Acquisition of subsidiaries	11,720	—
Reversal of deferred tax liabilities	—	2,165
Recognised in the profit and loss account during the year	5,338	26,038
Recognised in equity during the year	(1,855)	—
Transfer from taxation payable	3,105	—
End of year	118,482	100,921

Provided for in respect of:

Group

	Accelerated depreciation allowances \$'000	Deferred expense/ (income) \$'000	Impairment of assets \$'000	Tax losses carried forward \$'000	Retirement benefit obligation \$'000	Revaluation of properties \$'000	Unrealised profit in inventories of subsidiaries \$'000	Total \$'000
Balance at 1st June, 2004	(3,438)	271	—	81,980	—	—	22,108	100,921
Acquisition of subsidiaries	(3,259)	4,162	3,778	5,773	1,266	—	—	11,720
(Charge)/Credit to the profit and loss account for the year	(565)	(570)	(134)	5,627	16	—	964	5,338
(Charge)/Credit to equity for the year	—	—	—	—	—	(1,855)	—	(1,855)
Transfer from taxation payable	—	—	—	3,105	—	—	—	3,105
Exchange adjustments	69	(129)	(265)	(374)	(48)	—	—	(747)
Balance at 31st May, 2005	(7,193)	3,734	3,379	96,111	1,234	(1,855)	23,072	118,482

No deferred taxation was provided for non-trading securities revaluation surplus as such surplus would not constitute a temporary difference for taxation purpose and the realisation of the reserves therefrom would not be subject to taxation.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. DEFERRED TAX ASSETS/(LIABILITIES) (Cont'd)

- (b) Deferred taxation is calculated in full on temporary differences under the balance sheet liability method using a principal taxation rate of 17.5% (2004:17.5%). Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred tax relates to the same fiscal authority. The following amounts are shown in the consolidated balance sheet:

	Group	
	2005 \$'000	2004 \$'000
Deferred tax liabilities	(9,606)	(3,167)
Deferred tax assets	128,088	104,088
	118,482	100,921

- (c) At 31st May, 2005, the Group has unused tax losses of approximately \$393,408,000 (2004: \$843,602,000) available for offset against future profits. Deferred tax asset has been recognised in respect of approximately \$23,175,000 (2004: \$386,370,000) of such losses. No deferred tax asset has been recognised in respect of the remaining \$370,233,000 (2004: \$457,232,000) due to the unpredictability of future profit streams. The unrecognised tax losses will expire through 5 years to indefinitely.

16. INTERESTS IN SUBSIDIARIES

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

	2005 \$'000	2004 \$'000
Shares listed in Hong Kong, at cost	118,691	97,548
Unlisted shares, at cost	328,239	328,239
Less: Accumulated impairment losses	(29,000)	(29,000)
	417,930	396,787
Market value of shares listed in Hong Kong	239,859	232,128

Notes:

- (a) Amounts due from/(to) subsidiaries were unsecured and repayable on demand. Except for an amount of approximately \$275,801,000 (2004: \$323,642,000) due from a subsidiary which bore interest at commercial lending rate, the remaining balances were non-interest bearing.
- (b) At 31st May, 2005, the Company guaranteed the payments and performance by several subsidiaries under certain license agreements pursuant to which the subsidiaries were licensees (Note 31).
- (c) At 31st May, 2005, the Company provided corporate guarantees to commercial banks and other institutions of approximately \$3,881,015,000 (2004: \$2,090,423,000) to secure banking and other facilities of certain subsidiaries (Notes 31 and 32(a)).
- (d) The underlying value of interests in subsidiaries was, in the opinion of the Directors, not less than the carrying value at 31st May, 2005.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. INTERESTS IN SUBSIDIARIES (Cont'd)

The following is a list of the significant subsidiaries at 31st May, 2005:

Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
# Abel & Zimmermann GmbH & Co KG	Germany	EUR511,292	—	50.63	Manufacturing and distribution of jewellery
Bartelli (Holdings) Limited	British Virgin Islands	US\$1	—	100	Licensing of leather trademark
Bartelli Leather Products Limited	Hong Kong	\$10,000	—	100	Manufacturing and distribution of leather products
# @ Bartelli Leather Products (Shenzhen) Co. Ltd.	The People's Republic of China ("PRC")	US\$500,000	—	100	Manufacturing of leather products
# @ Calibre Jewellery (Shenzhen) Co. Ltd.	The PRC	US\$600,000	—	59.57	Manufacturing of jewellery
Centreline Group Limited	British Virgin Islands	US\$1	—	100	Investment holding and licensing of trademarks
# Chromachron A.G.	Switzerland	CHF300,000	—	100	Design, assembly and distribution of watches
# Comtesse Accessoires GmbH (Formerly known as Comtesse GmbH)	Germany	EUR1,000,000	—	100	Manufacturing and distribution of leather products

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. INTERESTS IN SUBSIDIARIES (Cont'd)

Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Eco-Haru (Far East) Limited	Hong Kong	\$500,000	—	100	Distribution of timepieces, jewellery and leather and lifestyle products
Eco-Haru Mfr. Holdings Limited	British Virgin Islands	US\$1	100	—	Investment holding
Eco-Haru Property Investments Limited	Hong Kong	\$2	—	100	Property holding
Eco Swiss China Time Limited	Hong Kong	\$26,000,000	100	—	Procurement
Egana Asial Company Limited	Samoa/The PRC	\$1,000	—	60	Assembly of watches
Egana.Com Inc.	British Virgin Islands	US\$100	—	100	Operation of e-business
# Egana Deutschland GmbH	Germany	EUR5,113,430	—	100	Design and distribution of watches
Egana Far East Procurement Services (Holdings) Limited	Cayman Islands	\$15,000,000	100	—	Procurement
Egana Finance Limited	Hong Kong	\$2	100	—	Group treasury

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. INTERESTS IN SUBSIDIARIES (Cont'd)

Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
# EganaGoldpfeil Benelux Jewel B.V.	The Netherlands	EUR18,000	—	59.57	Distribution of jewellery
# EganaGoldpfeil Benelux Time B.V.	The Netherlands	EUR18,000	—	100	Distribution of watches
# EganaGoldpfeil Europe (Holdings) GmbH	Germany	EUR2,600,000	100	—	Investment holding
# EganaGoldpfeil Italia s.r.l.	Italy	EUR25,823	—	100	Distribution of watches
# EganaGoldpfeil (Switzerland) Limited	Switzerland	CHF1,000,000	—	100	Design, manufacturing and distribution of watches
Egana-Haru Mfr. Corp. Limited	Hong Kong	\$2	—	100	Design, assembly, distribution and licensee of watches
# Egana India Private Limited	India	US\$500,000	—	90	Distribution of watches and jewellery
Egana Investments (Pacific) Limited	Cook Islands	US\$1	—	59.57	Investment holding and licensing operation

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. INTERESTS IN SUBSIDIARIES (Cont'd)

Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
* Egana Jewellery & Pearls Limited ("EJPL")	Cayman Islands/ Hong Kong	\$206,582,226	43.32	16.25	Investment holding
# Egana Jewelry & Pearls (America) Corp.	The United States of America	US\$881,000	—	59.57	Design and distribution of jewellery
# Egana Juwelen & Perlen Handels GmbH	Austria	EUR36,336	—	59.57	Distribution of jewellery
Egana Marketing (Suisse) Inc.	Cook Islands	US\$1	—	59.57	Provision of marketing and consultancy services
# Egana Schmuck und Perlen GmbH	Germany	EUR25,565	—	59.57	Design and distribution of jewellery
# Egana of Switzerland (America) Corp.	The United States of America	US\$16,517,458	100	—	Design, distribution and licensee of watches
Egana of Switzerland (Far East) Limited	Hong Kong	\$11,500,000	—	100	Design, assembly and distribution of watches
# Egana Uhrenvertriebs GmbH	Austria	EUR36,000	—	100	Distribution of watches
# Eurochron GmbH	Germany	EUR2,556,459	—	100	Design, manufacturing and distribution of clocks

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. INTERESTS IN SUBSIDIARIES (Cont'd)

Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
# European Technology & Logistic Center GmbH	Germany	EUR500,000	—	100	Technology and logistic center
Everstone Limited	Hong Kong/ The PRC	\$100	—	59.57	Subcontracting and manufacturing of jewellery
Funasia Investments Limited	British Virgin Islands	US\$14,000,001	—	100	Investment holding
Glorious Concept Limited	British Virgin Islands	US\$10	—	100	Investment holding
# Goldpfeil GmbH	Germany	EUR3,600,000	—	100	Design, manufacturing and distribution of luxury leather goods
Goldpfeil Distribution and Services Limited	Hong Kong	\$500,000	—	100	Distribution and retailing of leather products
# Goldpfeil Genève S.A.	Switzerland	CHF100,000	—	100	Distribution of watches
# Guthmann + Wittenauer Schmuck GmbH	Germany	EUR1,500,000	—	59.57	Manufacturing and distribution of jewellery
# Haru Holding & Management GmbH	Germany	EUR2,300,850	—	100	Investment holding
# Haru Japan Corporation, Inc.	Japan	JP¥30,000,000	—	100	Distribution of timepieces, jewellery, and sourcing agent for pearls

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. INTERESTS IN SUBSIDIARIES (Cont'd)

	Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued capital/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
#	Jacquelin Designs Enterprises, Inc.	The United States of America	—	—	59.57	Design and distribution of jewellery
	Junghans Asia Limited	Hong Kong	\$1,000	—	100	Distribution of watches
	Junghans Asia (Holdings) Limited	British Virgin Islands	US\$100	—	100	Investment holding
	Junghans Group Limited	British Virgin Islands	US\$1	—	100	Investment holding
#	Junghans Uhren GmbH	Germany	EUR5,112,919	—	100	Manufacturing and distribution of watches
	Kai-Yin Lo Limited	Hong Kong	\$2,600,000	—	100	Designs, manufacturing and retailing of jewellery
#	Keimothai Limited	Thailand	Baht81,000,000	—	59.57	Sourcing, manufacturing and distribution of jewellery
#	Lorica Sud s.r.l.	Italy	EUR900,800	—	70	Manufacturing and distribution of man-made leather goods
	Oro Design Limited	Hong Kong	\$10,000	—	59.57	Design, manufacturing, distribution and licensee of jewellery
	P.C. International Marketing Limited	British Virgin Islands/France	US\$1	100	—	Licensing of watches and jewellery trademarks/brandnames
	Pioneer Ventures Limited	Hong Kong	\$100	—	100	General trading and quality inspection
#	Porzellan-Manufaktur Ludwigsburg GmbH (i)	Germany	EUR1,000,000	—	77.5	Manufacturing of porcelain

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. INTERESTS IN SUBSIDIARIES (Cont'd)

Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
# Rebner GmbH	Germany	EUR25,564	—	50.63	Investment holding
# Salamander in Austria GmbH (ii)	Austria	EUR4,500,000	—	100	Retailing of shoes
# Salamander CR spol.s.r.o. (ii)	Czech Republic	CZK18,222,000	—	100	Retailing of shoes
# Salamander France S.A.S. (ii)	France and Belgium	EUR4,458,600	—	100	Retailing of shoes
# Salamander GmbH (ii)	Germany	EUR8,000,000	—	100	Retailing of shoes
# Salamander Hungaria Kft. (ii)	Hungary	HUF662,880,000	—	99.849	Retailing of shoes
# Salamander Ost GmbH (ii)	Russia	RUB20,190,000	—	100	Retailing of shoes
# Salamander Polska Sp.z.o.o. (ii)	Poland	PLN2,808,000	—	100	Retailing of shoes
# Sioux GmbH	Germany	EUR7,669,000	—	100	Manufacturing and distribution of footwear
Time Success Industrial Limited	Hong Kong	\$2	—	59.57	Property holding
Towercham Limited	Island of Nevis, West Indies	STG2	—	100	Provision of marketing and consultancy services
# Zeitmesstechnik GmbH	Germany	EUR99,702	—	100	Provision of timepiece repair and maintenance services

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. INTERESTS IN SUBSIDIARIES (Cont'd)

Notes:

- (i) The Group acquired a German porcelain manufacturer in October 2004.
- (ii) The Group acquired a German footwear retail group, Salamander GmbH and its subsidiaries in March, 2005.
- (iii) The above table listed the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results 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.

* Listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

Audited by certified public accountants other than Baker Tilly Hong Kong Limited

@ Wholly foreign-owned enterprise incorporated in the PRC

17. INTERESTS IN ASSOCIATED COMPANIES

	Group	
	2005 \$'000	2004 \$'000
Share of net assets/(liabilities)		
Company listed in Hong Kong	105,671	80,219
Unlisted companies	(8,500)	(12,461)
	97,171	67,758
Negative goodwill	—	(1,386)
Goodwill	64,269	64,269
	161,440	130,641
The Group's share of the market value of the company listed in Hong Kong	41,214	54,433

The underlying value of interests in associated companies was, in the opinion of the Directors, not less than the carrying value at 31st May, 2005.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

17. INTERESTS IN ASSOCIATED COMPANIES (Cont'd)

The following is a list of the principal associated companies at 31st May, 2005:

Name	Place of incorporation/ operation	Particulars of issued shares held	Percentage of interest held		Principal activities
			Directly	Indirectly	
			%	%	
Amaretta GmbH (Formerly Known as Haru-Kuraray GmbH) ("Amaretta")*	Germany	EUR1,022,600	—	30.00	Distribution of man-made leather
Dominique Roger Diffusion S.A.R.L. ("Dominique")	France	Ordinary shares of EUR14 each	—	30.00	Distribution and marketing of timepieces and jewellery
JOOP! GmbH ("JOOP!")	Germany	3 shares of EUR120,000 each	—	33.33	Retail and trademark licensing
Tonic Industries Holdings Limited ("Tonic") **	Cayman Islands/ Hong Kong	Ordinary shares of \$0.1 each	—	20.40	Design, manufacturing and trading of consumer electronic products and components and home appliance products

* During the year, the Group disposed 25% interest in Amaretta which reduced Group's shareholding from 55% to 30%.

** Listed on the Stock Exchange

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

17. INTERESTS IN ASSOCIATED COMPANIES (Cont'd)

Tonic has a financial accounting period of 31st March, which is not coterminous with the Group. Summarised audited financial information of Tonic as at 31st March, 2005 and for the year then ended is set out below:

	31st March, 2005 \$'000 (Audited)#	31st March, 2004 \$'000 (Audited)#
Balance sheet		
Non-current assets	741,539	592,960
Current assets	623,859	869,956
Total assets	1,365,398	1,462,916
Capital and reserves	519,888	396,539
Non-current liabilities	223,945	266,878
Current liabilities	621,565	799,499
Total equity and liabilities	1,365,398	1,462,916
Profit and loss account		
Turnover	2,636,294	2,074,140
Gross profit	107,817	104,516
Operating profit	41,788	29,109
Profit before taxation	29,038	19,965
Net profit for the year	27,560	25,599

Audited by certified public accountants other than Baker Tilly Hong Kong Limited

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

18. INVESTMENTS IN NON-TRADING SECURITIES

	Group		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Equity securities:				
Strategic investments (a)	283,587	278,892	44,663	43,199
Others (b)	244,289	53,611	6,377	7,362
	527,876	332,503	51,040	50,561

Notes:

(a) Strategic investments:

	Group	
	2005 \$'000	2004 \$'000
Unlisted, at fair value		
- Investment in third party private companies (i)	87,792	87,792
- Private closed-end funds (ii)	195,795	191,100
	283,587	278,892

	Company	
	2005 \$'000	2004 \$'000
Unlisted, at fair value	44,663	43,199

- (i) At 31st May, 2005, the Group had strategic investments in two third party private companies with a view to enhancing the Group's distribution network in Asia. Their principal activities are investment holding, trading of consumer products, rendering of marketing promotion service, distribution and trading of fashion accessory products.

As at 31st May, 2005, the investment in the private companies was stated at fair value as determined by the Directors and a revaluation surplus of approximately \$10,456,000 (2004: \$12,688,000) was recorded in the revaluation reserve.

In the opinion of the Directors, there was no impairment in the carrying value of these non-trading securities at 31st May, 2005.

- (ii) At 31st May, 2005, the Group had strategic investments in four private closed-end funds, which provided opportunity for the Group to explore Junghans systems watch program extension in Asia, and to exploit distribution alliance partners for the Group's branded products in the Greater China markets. The four funds are under the management of a third party Hong Kong listed investment banking group.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

At 31st May, 2005, the investment in private closed-end funds was stated at fair value which was determined by the Directors and a revaluation deficit of approximately \$163,600 (2004: \$5,684,000) was recorded in the revaluation reserve.

In the opinion of the Directors, there was no impairment in the carrying value of the funds at 31st May, 2005.

(b) Others:

	Group	
	2005 \$'000	2004 \$'000
Listed in Hong Kong, at quoted market price	98,652	53,147
Listed other than in Hong Kong, at quoted market price	3,064	—
Unlisted, at fair value (i)	142,573	464
	244,289	53,611
	Company	
	2005 \$'000	2004 \$'000
Listed in Hong Kong, at quoted market price	6,062	7,047
Unlisted, at fair value	315	315
	6,377	7,362

- (i) In May 2005, the Group invested \$117,000,000 in a US-based private leather products and footwear importer, House of Brands, Inc. of KIA, Inc. which is one of the most established footwear importers in the United States. House of Brands, Inc. is expected to pass onto the Group sourcing contracts which should generate additional revenue and create synergies in North America.

In the opinion of Directors, there was no impairment in the carrying value of the investments as at 31st May, 2005.

19. INVENTORIES

	Group	
	2005 \$'000	2004 \$'000
Raw materials	285,303	283,629
Work-in-progress	101,572	96,342
Finished goods	912,129	604,472
	1,299,004	984,443
Less: Provision for inventory	(138,333)	(89,157)
	1,160,671	895,286

At 31st May, 2004 and 2005, no inventory was carried at net realisable value.

At 31st May, 2005, the carrying amount of inventories that was pledged as security for banking facilities granted to certain subsidiaries of the Group amounted to approximately \$90,782,000 (2004: \$48,782,000) (Note 32 (b)).

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

20. ACCOUNTS RECEIVABLE, NET

In general, the Group grants an average credit period of 30 to 120 days to its trade customers. An aging analysis of accounts receivable at 31st May, 2005 after provision for bad and doubtful debts was as follows:

	Group	
	2005 \$'000	2004 \$'000
Due		
In current month	308,254	730,732
Between one to two months	51,404	36,663
Between two to three months	24,744	32,926
Between three to four months	16,780	25,410
Over four months	48,854	28,546
	450,036	854,277

21. SHORT-TERM INVESTMENTS

	Group	
	2005 \$'000	2004 \$'000
Equity-linked notes (a)	83,000	118,810
Trading securities listed outside Hong Kong	317	7,739
	83,317	126,549

Notes:

- (a) At 31st May, 2005, the Group had investments in certain equity-linked notes (the "ELNs") issued by an independent third party private company (the "Note Issuer").

The ELNs were unsecured, bore interest at a range of 1.25% to 3.0% per annum and would be redeemable by the Note Issuer on maturity dates, which were three to six months after the issuance dates.

The ELNs or any part thereof are convertible into shares of companies listed on the Stock Exchange at a specified conversion price (subject to adjustments) at the option of the Group. The Group also has the right to demand the Note Issuer to redeem any notes not previously converted at redemption amounts equal to 102% to 105% of the principal amounts upon maturity.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

22. ACCOUNTS PAYABLE, ACCRUALS AND OTHER PAYABLES

	Group		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Accounts payable	252,796	250,536	—	—
Accruals and other payables	453,234	334,308	5,700	5,092
	706,030	584,844	5,700	5,092

At 31st May, 2005, the aging analysis of the accounts payable was as follows:

	Group	
	2005 \$'000	2004 \$'000
Due		
In current month	195,405	199,564
Between one to two months	17,785	34,707
Between two to three months	12,516	4,900
Between three to four months	6,980	4,910
Over four months	20,110	6,455
	252,796	250,536

23. PROVISIONS

Group	Warranty (a)	Restructuring	Others	Total
	\$'000	\$'000	\$'000	\$'000
At 1st June, 2004	19,154	3,220	3,594	25,968
Additional provisions	6,463	1,615	—	8,078
Arising from the partial disposal of interest in a subsidiary	(240)	—	—	(240)
Less: Amounts utilised	(2,108)	(5,051)	—	(7,159)
Less: Unused amounts reversed	(15,726)	—	(3,647)	(19,373)
Exchange adjustments	103	216	53	372
At 31st May, 2005	7,646	—	—	7,646

Notes:

- (a) Warranty provision: The Group provided warranties on certain products and undertook to repair or replace items that failed to perform satisfactorily. The provision was recognised during the year for expected warranty claims based on past experience of the level of repairs and returns.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

24. SHORT-TERM BANK BORROWINGS

	Group		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Bank loans and overdrafts	918,221	494,420	—	—
Trust receipts and import loans	203,681	145,120	—	—
	1,121,902	639,540	—	—

25. LONG-TERM LIABILITIES

	Group		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Long-term bank borrowings (a)	548,007	493,573	300,000	284,000
Other long-term loans (b)	34,008	67,171	—	—
Obligations under finance leases (c)	9,062	28,351	—	—
	591,077	589,095	300,000	284,000
Current portion of long-term liabilities	(127,226)	(179,748)	—	(46,000)
	463,851	409,347	300,000	238,000

Notes:

(a) Long-term bank borrowings:

	Group		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Repayable				
- within one year				
- secured	10,263	22,396	—	—
- unsecured	79,201	95,197	—	46,000
- in the second year				
- secured	7,499	15,607	—	—
- unsecured	212,361	108,551	90,000	70,000
- in the third to fifth year				
- secured	14,286	7,598	—	—
- unsecured	222,936	243,491	210,000	168,000
- after the fifth year				
- secured	1,461	733	—	—
- unsecured	—	—	—	—
	548,007	493,573	300,000	284,000
Current portion included in current liabilities	(89,464)	(117,593)	—	(46,000)
	458,543	375,980	300,000	238,000

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

25. LONG-TERM LIABILITIES (Cont'd)

(a) Long-term bank borrowings: (Cont'd)

- (i) In March 2004, a subsidiary entered into a syndicated loan agreement with banks for a three-year transferable loan facility amounting to \$120 million. The syndicated loan carries interest at commercial lending rates, is guaranteed by certain subsidiaries and is repayable by three semi-annual instalments commencing in March 2006.
- (ii) On 28th January, 2005, the Company entered into a syndicated loan agreement with banks for a three-year revolving credit and term loan facility amounting to \$300 million. The proceeds of this syndicated loan were used exclusively to refinance the Company's indebtedness under a syndicated loan obtained in September 2003 and to finance the Group's general working capital requirements.

The syndicated loan carries interest at commercial lending rates, is guaranteed by certain subsidiaries and is repayable by 7 successive quarterly instalments commencing in July 2006.

Pursuant to the relevant agreements in respect of the above two syndicated loans, the Group is required to comply with certain financial and general covenants. As of the date of the approval of accounts, the Directors believe that the Group has complied in all material respects with all the financial and general covenants as required by the agreements.

At 31st May, 2005, long-term bank borrowings not wholly repayable within five years of approximately \$17,030,000 (2004: \$9,765,000) were repayable by instalments.

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

	Group	
	2005 \$'000	2004 \$'000
Repayable		
- within one year	28,996	42,720
- in the second year	310	5,087
- in the third to fifth year	1,076	1,045
- after the fifth year	3,626	18,319
	34,008	67,171
Current portion included in current liabilities	(28,996)	(42,720)
	5,012	24,451

At 31st May, 2005, other loans not wholly repayable within five years of approximately \$5,726,000 (2004: \$19,969,000) were repayable by instalments.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

25. LONG-TERM LIABILITIES (Cont'd)

(c) Obligations under finance leases:

	Group	
	2005 \$'000	2004 \$'000
Lease payments payable		
- within one year	8,879	20,421
- in the second year	276	8,756
- in the third to fifth year	28	276
	9,183	29,453
Future finance charges on finance leases	(121)	(1,102)
Present value of finance lease liabilities	9,062	28,351

The present value of finance lease liabilities was as follows:

	Group	
	2005 \$'000	2004 \$'000
Repayable		
- within one year	8,766	19,435
- in the second year	269	8,646
- in the third to fifth year	27	270
Present value of finance lease liabilities	9,062	28,351
Current portion included in current liabilities	(8,766)	(19,435)
	296	8,916

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

26. CONVERTIBLE BONDS

	Group		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Beginning of year	226,200	78,000	159,900	78,000
Issued during the year				
- Company (a)(i)(ii)	—	117,000	—	117,000
- Subsidiary (b)	39,000	78,000	—	—
Converted to ordinary shares				
- Company (a)(iii)	(136,453)	(35,087)	(136,453)	(35,087)
- Subsidiary (b)	(105,300)	(11,700)	—	—
Repayment of convertible bonds				
- Company	(47)	(13)	(47)	(13)
End of year	23,400	226,200	23,400	159,900
Current portion included in current liabilities	(23,400)	—	(23,400)	—
	—	226,200	—	159,900

(a) Convertible bonds - Company

- (i) On 27th February, 2003, the Company entered into a subscription agreement (as amended by an amendment agreement dated 15th January, 2004) (the "Subscription Agreement A") with Credit Suisse First Boston (Hong Kong) Limited ("CSFB") whereby the Company has to issue convertible bonds to CSFB up to a maximum of US\$25 million (equivalent to approximately \$195 million). These bonds bear interest at 1.0% per annum and will mature on 27th February, 2006 (the "First Maturity Date"). The interest rate was then amended to 0.5% per annum on 15th January, 2004.

On 27th February, 2003 (the "First Closing Date"), the Company issued convertible bonds (the "Tranche 1 Bonds") of US\$10 million (equivalent to approximately \$78 million) to CSFB. The Tranche 1 Bonds may be converted into the Company's shares at the conversion price during the conversion period as stated in the Subscription Agreement A. All outstanding Tranche 1 Bonds will be redeemed at 100% of its principal amount on maturity.

Upon the issuance of the Tranche 1 Bonds, the Company also granted to CSFB the following:

- An additional subscription right exercisable at any time commencing on the First Closing Date until the First Maturity Date, to subscribe for approximately 9 million ordinary shares (the "Tranche 1 Bonds Subscription Shares") in the Company at a subscription price of \$1.6184 per share.
- An option exercisable from the First Closing Date until the First Maturity Date, to require the Company to issue additional Tranche 1 Bonds of up to US\$5 million (equivalent to approximately \$39 million). On 15th January, 2004, CSFB exercised this option, the Company then issued additional convertible bonds (the "Additional Tranche 1 Bonds") of US\$5 million (equivalent to approximately \$39 million) to CSFB. The Additional Tranche 1 Bonds are of the same terms as the Tranche 1 Bonds.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

26. CONVERTIBLE BONDS *(Cont'd)*

(a) Convertible bonds - Company *(Cont'd)*

(i) *(Cont'd)*

Upon the issuance of the Additional Tranche 1 Bonds, the Company also granted additional subscription rights to CSFB, exercisable at any time commencing on 15th January, 2004 until the First Maturity Date, to subscribe for approximately 4.5 million ordinary shares (the "Additional Tranche 1 Bonds Subscription Shares") in the Company at a subscription price of \$1.6184 per share.

Details of the Subscription Agreement A and the relevant amendments were disclosed in the Company's Announcements dated 27th February, 2003, 6th June, 2003 and 15th January, 2004.

(ii)

Under the Subscription Agreement A, CSFB also granted an option to the Company to require CSFB to subscribe for convertible bonds (the "Tranche 2 Bonds") of US\$10 million (equivalent to approximately \$78 million), subject to the satisfaction of certain conditions stipulated in the Subscription Agreement A. On 15th January, 2004 (the "Second Closing Date"), the Company issued the Tranche 2 Bonds of US\$10 million (equivalent to approximately \$78 million) to CSFB. The Tranche 2 Bonds have substantially the same terms as the Tranche 1 Bonds.

Upon the issuance of the Tranche 2 Bonds, the Company also granted additional subscription rights to CSFB, exercisable at any time commencing on the Second Closing Date until the First Maturity Date, to subscribe for approximately 7 million ordinary shares (the "Tranche 2 Bonds Subscription Shares") in the Company at a subscription price of \$2.0604 per share.

(iii)

During the year ended 31st May, 2005, convertible bonds amounting to US\$17.5 million (equivalent to approximately \$136.5 million) (2004: US\$4.5 million (equivalent to approximately \$35.1 million)) were converted into 99,456,000 (2004: 23,827,000) ordinary shares in the Company.

(iv)

On 15th January, 2004, the Company entered into another subscription agreement (the "Subscription Agreement B") with CSFB whereby the Company has to grant an option to CSFB, exercisable at any time commencing on 15th January, 2005 (the "Third Closing Date") until 27th February 2006, to require the Company to issue convertible bonds (the "Tranche 3 Bonds") up to US\$10 million (equivalent to approximately \$78 million). These bonds if issued will bear interest at 0.5% per annum.

Upon the issuance of the Tranche 3 Bonds, the Company also granted additional subscription rights to CSFB, exercisable at any time commencing on the Third Closing Date to the First Maturity Date to subscribe for approximate 6 million ordinary shares (the "Tranche 3 Bonds Subscription Shares") in the Company at a subscription price of \$2.28 per share.

Details of the Subscription Agreement B were disclosed in the Company's Announcement dated 15th January, 2004.

(v)

Pursuant to an Agreement dated 5th May, 2005 (the "Agreement"), the Company and CSFB agreed to waive their respective rights, benefits, and claims in relation to (i) the Tranche 1 Bonds Subscription Shares, the Additional Tranche 1 Bonds Subscription Shares and the Tranche 2 Bonds Subscription Shares; (ii) the issuance and delivery of the Tranche 3 Bonds; and (iii) the Tranche 3 Bonds Subscription Shares at a total consideration of US\$2,511,307.

Details of the Agreement were disclosed in the Company's Announcement dated 10th May, 2005.

As at 14th September, 2005 (the date of this Annual Report), CSFB holds, in aggregate, US\$2,400,000 convertible bonds which will be expiring on 27th February, 2006.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

26. CONVERTIBLE BONDS *(Cont'd)*

(b) Convertible bonds - Subsidiary

On 10th February, 2004, a listed subsidiary, Egana Jewellery & Pearls Limited ("Egana Jewellery") entered into a subscription agreement (as amended by a letter agreement dated 26th February, 2004) (the "Subscription Agreement C") with Merrill Lynch International ("Merrill Lynch") whereby Egana Jewellery agreed to issue convertible bonds up to a maximum of US\$45 million (equivalent to approximately \$351 million) to Merrill Lynch, these bonds bear interest at 1.5% per annum and will mature on 31st March, 2009 (the "Second Maturity Date"). The details of the terms and conditions of the convertible bonds were disclosed in the Egana Jewellery Announcement dated 10th February 2004.

On 26th February, 2004, Egana Jewellery issued convertible bonds (the "Tranche 1 Bonds") of US\$10 million (equivalent to approximately \$78 million) to Merrill Lynch. Tranche 1 Bonds amounting to US\$1.5 million (equivalent to \$11.7 million) were converted into Egana Jewellery's ordinary shares in prior year, with the remaining balance of US\$8.5 million (equivalent to \$66.3 million) converted into ordinary shares in the current year.

On 4th February, 2005, Egana Jewellery issued convertible bonds (the "Tranche 3a Bonds") of US\$5 million (equivalent to approximately \$39 million) to Merrill Lynch. During the year, Merrill Lynch has fully converted the Tranche 3a Bonds into ordinary shares of Egana Jewellery.

In accordance with the terms and conditions of the subscription letter dated 10th February, 2004, Egana Jewellery has granted Merrill Lynch subscription rights to subscribe for approximately 5.5 million ordinary shares of Egana Jewellery and 3.5 million ordinary shares of Egana Jewellery in respect of the Tranche 1 Bonds and Tranche 3a Bonds respectively.

As at 31st May, 2005, options exercisable by either Egana Jewellery or Merrill Lynch to issue Tranche 1a Bonds, Tranche 2a and 2b Bonds and Tranche 3b Bonds under the Subscription Agreement C have not been exercised and expired in accordance with the terms of the Subscription Agreement C.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

27. PENSIONS AND OTHER POST RETIREMENT OBLIGATIONS

	Group	
	2005 \$'000	2004 \$'000
Obligations on:		
- pensions - defined contribution plan (a)	—	—
- pensions - defined benefits plans (b)	230,652	216,755
	230,652	216,755

Notes:

(a) Pensions - defined contribution plan

The Group has participated in the defined Mandatory Provident Fund scheme in Hong Kong since 1 December 2000 and made monthly contributions to the scheme based on 5%-7% of the employees' basic salaries. The contributions are subject to a maximum of \$1,000 per employee per month and thereafter contributions are voluntary. During the year ended 31st May, 2005, the Group's employer's contribution to the scheme was approximately \$3,310,000 (2004: \$3,060,000). The assets of the scheme are held separately from those of the Group and are managed by independent professional fund managers.

Forfeited contributions totalling \$455,000 (2004: \$299,000) were utilised during the year.

(b) Pensions - defined benefits plans

Employees of certain overseas subsidiaries are members of defined benefits plans maintained by the Group. There is no requirement for these employees to make periodic contributions to these plans. At 31st May, 2005, the plans were still unfunded and comprised no plan assets. The latest actuarial valuations of the Group's defined benefits plans were completed at 31st May, 2005 by qualified actuaries, M&L Gesellschaft für Versicherungsmathematik mbH, Dr. Dr. Heissmann GmbH, HÖFER Vorsorge-Management, Allianz Lebensversicherungs-AG, IDUNA Vereinigte Lebensversicherung aG, Concisa Vorsorgeberatung und Management AG and AXA France Vie S.A. using the projected unit credit method. The main actuarial assumptions were as follows:

Discount rate	4%-6%
Expected rate of future salary increases	1%-2%
Expected future pension increases	1%-2%

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

27. PENSIONS AND OTHER POST RETIREMENT OBLIGATIONS (Cont'd)

(b) Pensions - defined benefits plans (Cont'd)

The amounts recognised in the balance sheet were determined as follows: -

	Group	
	2005 \$'000	2004 \$'000
Present value of unfunded obligations	228,926	221,337
Unrecognised actuarial gains/(losses)	1,726	(4,582)
Liability in the balance sheet	230,652	216,755

The amounts recognised in the profit and loss account were as follows:

	2005 \$'000	2004 \$'000
Current service cost	796	3,230
Interest cost	11,607	9,963
Net actuarial (gain)/losses recognised	(4,741)	1,205
Total included in staff costs (Note 11)	7,662	14,398

All the charges were included in administrative expenses.

Movements in the liability recognised in the balance sheet were as follows:

	2005 \$'000	2004 \$'000
Beginning of year	216,755	137,527
Exchange adjustments	2,650	7,470
Liabilities acquired on acquisition of subsidiaries	17,523	69,109
Expenses recognised in the profit and loss account	7,662	14,398
Benefits paid	(13,938)	(11,749)
End of year	230,652	216,755
Current portion included in current liabilities	(14,724)	(14,810)
	215,928	201,945

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. SHARE CAPITAL

Share capital comprised:

	2005 Number of ordinary shares	2004	2005 \$'000	2004 \$'000
Authorised:	2,000,000,000	2,000,000,000	2,000,000	2,000,000
Issued and fully paid:				
Ordinary shares:				
Beginning of year	1,171,830,051	1,131,976,762	1,171,829	1,131,976
Issued upon conversion of convertible bonds (a)	99,456,000	23,827,000	99,457	23,827
Issue of shares pursuant to scrip dividend scheme for the 2003 final dividend	—	16,026,289	—	16,026
End of year	1,271,286,051	1,171,830,051	1,271,286	1,171,829

Notes:

- (a) During the year, the Company issued a total of 99,456,000 new ordinary shares of \$1 each upon the conversion of convertible bonds of \$136,500,000 as set out in note 26.

Share options

A 10-year Executive Share Option Scheme of the Company (the "Scheme") expired on 31st May, 2003. However, the options granted during the tenure of the Scheme shall remain exercisable within 10 years from the date on which the options were granted. Share options granted are subjected to a maximum of 10% of the issued share capital of the Company from time to time.

Notes:

- (a) Movements in the number of share options outstanding during the year were as follows:

	Number of share options	
	2005 '000	2004 '000
Beginning of year	45,229	45,382
Lapsed on expiry	(250)	(153)
End of year	44,979	45,229

No share options were granted (2004: Nil), exercised (2004: Nil) or cancelled (2004: Nil) during the year.

250,000 share options were lapsed (2004: 153,000 share options) were lapsed.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. SHARE CAPITAL (Cont'd)

Share options (Cont'd)

(b) At 31st May, 2005, details of outstanding share options were as follows:

Date granted	Expiry date	2005			2004		
		Exercise price \$	No. of options	No. of options vested	Exercise price \$	No. of options	No. of options vested
Directors							
23/03/1997	23/03/2007	3.45	144,800	—	3.45	144,800	—
09/01/2000	09/01/2010	2.11	12,500,000	—	2.11	12,500,000	—
17/01/2000	17/01/2010	2.11	500,000	—	2.11	500,000	—
			13,144,800	—		13,144,800	—
Employees under continuous contracts (excluding Directors)							
28/01/1997	28/01/2007	1.28	99,000	—	1.28	99,000	—
15/03/1997 to 27/09/1997	15/03/2007 to 27/09/2007	3.45	975,400	—	3.45	975,400	—
07/01/2000 to 25/02/2000	07/01/2010 to 25/02/2010	2.11	30,760,000	—	2.11	31,010,000	—
			31,834,400	—		32,084,400	—
			44,979,200	—		45,229,200	—

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

29. RESERVES

Group	Year ended 31st May, 2005								
	Share premium account \$'000	Exchange translation reserve \$'000	Retained profits \$'000	Revaluation reserve \$'000	Capital redemption reserve \$'000	Goodwill \$'000	Legal reserve \$'000	Other reserve \$'000	Total \$'000
Beginning of year, as previously reported	345,958	(197,276)	517,226	7,948	40,801	(454,108)	270	580	261,399
Effect of adopting HKFRS3	—	—	42,199	—	—	—	—	—	42,199
Beginning of year, as restated	345,958	(197,276)	559,425	7,948	40,801	(454,108)	270	580	303,598
Share premium arising from conversion of convertible bonds	17,421	—	—	—	—	—	—	—	17,421
Expenses incurred in connection with issue of shares	(68)	—	—	—	—	—	—	—	(68)
Share of an associated company's revaluation surplus of fixed assets	—	—	—	7,513	—	—	—	—	7,513
Share of an associated company's exchange translation reserve	—	3	—	—	—	—	—	—	3
Revaluation of leasehold land and buildings	—	—	—	10,601	—	—	—	—	10,601
Revaluation of listed non-trading securities	—	—	—	9,427	—	—	—	—	9,427
Revaluation of unlisted non-trading securities	—	—	—	5,089	—	—	—	—	5,089
Disposal of fixed assets	—	—	1,010	(1,010)	—	—	—	—	—
Disposal of subsidiaries	—	(514)	—	—	—	—	—	—	(514)
Disposal of listed non-trading securities	—	—	—	(16,729)	—	—	—	—	(16,729)
Deferred tax debited to equity	—	—	—	(1,855)	—	—	—	—	(1,855)
Exchange differences arising on translation of the accounts of foreign subsidiaries and associated companies	—	(7,367)	—	—	—	—	—	—	(7,367)
Profit attributable to shareholders	—	—	210,695	—	—	—	—	—	210,695
Dividends paid	—	—	(60,676)	—	—	—	—	—	(60,676)
End of year	363,311	(205,154)	710,454	20,984	40,801	(454,108)	270	580	477,138
Representing:									
2005 Final dividend proposed			44,595						
Others			665,859						
Retained profits, end of year			710,454						
Representing:									
Company and subsidiaries	363,311	(204,545)	653,075	12,190	40,801	(432,136)	270	580	433,546
Associated companies	—	(609)	57,379	8,794	—	(21,972)	—	—	43,592
End of year	363,311	(205,154)	710,454	20,984	40,801	(454,108)	270	580	477,138

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

29. RESERVES (Cont'd)

Group (Cont'd)	Year ended 31st May, 2004								
	Share premium account \$'000	Exchange translation reserve \$'000	Retained profits \$'000	Revaluation reserve \$'000	Capital redemption reserve \$'000	Goodwill \$'000	Legal reserve \$'000	Other reserve \$'000	Total \$'000
Beginning of year	327,342	(196,847)	432,879	174	40,801	(460,468)	270	580	144,731
Share premium arising from conversion of convertible bonds	11,260	—	—	—	—	—	—	—	11,260
Share premium arising from issue of shares under scrip dividend scheme	7,372	—	—	—	—	—	—	—	7,372
Expenses incurred in connection with issue of shares	(16)	—	—	—	—	—	—	—	(16)
Share of an associated company's revaluation surplus of fixed assets	—	—	—	19	—	—	—	—	19
Share of an associated company's exchange translation reserve	—	12	—	—	—	—	—	—	12
Revaluation of listed non-trading securities	—	—	—	4,218	—	—	—	—	4,218
Partial disposal of interest in an associated company	—	—	—	—	—	2,874	—	—	2,874
Deemed disposal of interest in a subsidiary	—	—	—	—	—	3,486	—	—	3,486
Partial disposal of unlisted non-trading securities	—	—	—	384	—	—	—	—	384
Dissolution of unlisted non-trading securities	—	—	—	3,153	—	—	—	—	3,153
Exchange differences arising on translation of the accounts of foreign subsidiaries and associated companies	—	(441)	—	—	—	—	—	—	(441)
Profit attributable to shareholders	—	—	141,884	—	—	—	—	—	141,884
Scrip and cash dividends	—	—	(57,537)	—	—	—	—	—	(57,537)
End of year	345,958	(197,276)	517,226	7,948	40,801	(454,108)	270	580	261,399
Representing:									
2004 Final dividend proposed			29,427						
Others			487,799						
Retained profits, end of year			517,226						
Representing:									
Company and subsidiaries	345,958	(196,964)	468,450	6,667	40,801	(432,136)	270	580	233,626
Associated companies	—	(312)	48,776	1,281	—	(21,972)	—	—	27,773
End of year	345,958	(197,276)	517,226	7,948	40,801	(454,108)	270	580	261,399

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

29. RESERVES (Cont'd)

Company

	Year ended 31st May, 2005					
	Share premium account \$'000	Retained profits \$'000	Revaluation reserve \$'000	Capital redemption reserve \$'000	Other reserve \$'000	Total \$'000
Beginning of year	345,958	34,502	(2,742)	40,801	457	418,976
Share premium arising from conversion of convertible bonds	17,421	—	—	—	—	17,421
Expenses incurred in connection with issue of shares	(68)	—	—	—	—	(68)
Revaluation of listed non-trading securities	—	—	(986)	—	—	(986)
Revaluation of unlisted non-trading securities	—	—	1,465	—	—	1,465
Profit for the year	—	73,915	—	—	—	73,915
Dividends paid	—	(60,676)	—	—	—	(60,676)
End of year	363,311	47,741	(2,263)	40,801	457	450,047
Representing:						
2005 Final dividend proposed		44,595				
Others		3,146				
Retained profits, end of year		47,741				

	Year ended 31st May, 2004					
	Share premium account \$'000	Retained profits \$'000	Revaluation reserve \$'000	Capital redemption reserve \$'000	Other reserve \$'000	Total \$'000
Beginning of year	327,342	90,691	(1,784)	40,801	457	457,507
Share premium arising from conversion of convertible bonds	11,260	—	—	—	—	11,260
Share premium arising from the issue of shares under scrip dividend scheme	7,372	—	—	—	—	7,372
Expenses incurred in connection with issue of shares	(16)	—	—	—	—	(16)
Revaluation of listed non-trading securities	—	—	(958)	—	—	(958)
Profit for the year	—	1,348	—	—	—	1,348
Scrip and cash dividends	—	(57,537)	—	—	—	(57,537)
End of year	345,958	34,502	(2,742)	40,801	457	418,976
Representing:						
2004 Final dividend proposed		29,427				
Others		5,075				
Retained profits, end of year		34,502				

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

30. CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash inflow generated from operations:

	2005 \$'000	2004 \$'000
Profit before share of profit/(loss) of associated companies	225,104	136,807
Depreciation of fixed assets	52,240	52,171
Gain on revaluation of fixed assets	(990)	—
Gain on partial disposal of interest in a subsidiary	(3,943)	—
Loss/(Gain) on disposal of fixed assets	365	(8,675)
(Gain)/Loss on disposal of intangible assets	(176)	127
Amortisation of intangible assets, net	25,479	43,050
Gain on acquisition of additional interest in a subsidiary	(4,907)	—
Gain on acquisition of subsidiaries	(31,247)	—
Loss/(Gain) on disposal of a subsidiaries	3,288	(8)
Loss on deemed disposal of interest in a subsidiary	30,549	3,429
Franchising income	—	(32,445)
Gain on partial disposal of interest in an associated company	—	(730)
Amortisation of goodwill/negative goodwill arising on acquisition of associated companies, net	—	7,880
Gain on disposal of interest in an associated company	—	(5,198)
Dividend income	(1,753)	(4,576)
Gain on revaluation of trading securities	(12)	(65)
Gain on disposal of investments in non-trading securities, net	(26,988)	(881)
Redemption premium received on maturity of equity-linked notes	(14,416)	(5,896)
Interest income	(46,858)	(34,303)
Interest expense	66,427	66,506
Loss on dissolution of non-trading securities	—	2,625
Provision for inventory	12,389	—
Write-back of provision for inventory	(39,401)	(66,847)
Bad debt expense	11,838	19,955
Write-back of provision for bad debts	(383)	(899)
Operating profit before working capital changes	256,605	172,027
(Increase)/Decrease in inventories	(182,716)	47,293
Decrease/(Increase) in accounts receivable	356,622	(214,624)
(Increase)/Decrease in deposits, prepayments and other receivables	(22,726)	127,151
(Increase)/Decrease in due from associated companies	(1,878)	4,934
Decrease in accounts payable, accruals and other payables	(17,949)	(70,599)
Decrease in provisions	(18,631)	(20,387)
Increase in bills payable	24,784	34,704
(Decrease)/Increase in provision for pensions and other post retirement obligations	(6,276)	2,648
Increase/(Decrease) in due to associated companies	3,412	(2,221)
Increase /(Decrease) in due to Directors	470	(43)
Exchange adjustments	5,796	(10,861)
Net cash inflow generated from operations	397,513	70,022

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

30. CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(b) Analysis of changes in financing activities during the year:

	Year ended 31st May, 2005										2004 Total \$'000
	Share capital (including share premium)	Short-term bank borrowings	Dividend payable	Long-term bank borrowings	Other long-term loans	Loan from a minority shareholder	Finance leases obligations	Convertible bonds	Minority interests	Total	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Beginning of year	1,517,787	639,540	—	493,573	67,171	—	28,351	226,200	150,004	3,122,626	2,670,009
(Repayment of)/proceeds from borrowings, net	—	365,797	—	47,408	(34,370)	—	(20,108)	(47)	—	358,680	133,844
Conversion of convertible bonds	136,453	—	—	—	—	—	—	(241,753)	135,824	30,524	(57)
Payment of expenses incurred for issue of shares	(68)	—	—	—	—	—	—	—	—	(68)	(16)
Waiver of subscription rights & option in respect of convertible bonds	(19,575)	—	—	—	—	—	—	—	—	(19,575)	—
Proceeds from issuance of convertible bonds	—	—	—	—	—	—	—	39,000	—	39,000	195,000
Dividends paid	—	—	(60,676)	—	—	—	—	—	—	(60,676)	(34,139)
Acquisition of subsidiaries	—	132,704	—	3,863	—	1,364	—	—	3,781	141,712	30,681
Disposal of interest in subsidiary	—	(9,910)	—	—	—	—	—	—	(1,427)	(11,337)	—
Purchase of additional interest in a subsidiary	—	—	—	—	—	—	—	—	(26,049)	(26,049)	—
Dividends paid to minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	(15,082)	(15,082)	(8,311)
Dividend declared	—	—	60,676	—	—	—	—	—	—	60,676	57,537
Share of profit by minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	26,695	26,695	15,620
Share of revaluation deficit of non-trading securities and exchange translation reserve by minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	2,222	2,222	1,198
Inception of finance leases	—	—	—	—	—	—	—	—	—	—	39,550
Exchange adjustments	—	(6,229)	—	3,163	1,207	(40)	819	—	—	(1,080)	21,710
End of year	1,634,597	1,121,902	—	548,007	34,008	1,324	9,062	23,400	275,968	3,648,268	3,122,626

(c) Acquisition of subsidiaries:

In October 2004, the Group acquired 77.5% equity interest in Porzellan-Manufaktur Ludwigsburg GmbH (“PML”)

In March 2005, the Group acquired 100% equity interests in Salamander France S.A.S., Salamander in Austria GmbH, Salamander Ost GmbH, Salamander Polska Sp.z.o.o., Salamander CR spol.s.r.o. and 99.849% equity interest in Salamander Hungaria Kft. (“Salamander subsidiaries”).

The aggregate revenue and aggregate net profit of PML & Salamander subsidiaries as though the acquisition had occurred at 1st June, 2004 are approximately \$884,096,000 and \$15,753,000 respectively.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

30. CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

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

Details of net assets acquired and gain on acquisition are as follows:

	2005 \$'000	2004 \$'000
Purchase consideration:		
Cash consideration	115,416	28,716
Direct expenses relating to the acquisitions	401	—
Total purchase consideration	115,817	28,716
Less: fair value of net assets acquired	147,064	71,942
Gain on acquisition	(31,247)	(43,226)
	2005 \$'000	2004 \$'000
Net assets acquired:		
Fixed assets	128,752	31,998
Intangible assets	85,754	—
Investments in non-trading securities	3,609	—
Deferred tax assets	14,979	—
Inventories	139,972	92,000
Accounts receivable	6,947	56,193
Deposits, prepayments and other receivables	57,025	20,483
Tax recoverable	2,058	—
Cash and bank balances	37,795	12,069
Accounts payable, accruals and other payables	(167,334)	(38,061)
Provisions	—	(2,950)
Short-term bank borrowings	(132,704)	(14,101)
Long-term bank borrowings	(3,863)	(603)
Loan from a minority shareholder	(1,364)	—
Deferred tax liabilities	(3,259)	—
Minority Interests	(3,781)	—
Other loans	—	(15,977)
Pensions and other post retirement obligations	(17,522)	(69,109)
Share of net assets at date of acquisition	147,064	71,942
Gain on acquisition of subsidiaries	(31,247)	(43,226)
Consideration	115,817	28,716
Satisfied by:		
Cash consideration	115,817	28,716
Paid	58,361	28,716
Payable	57,456	—
	115,817	28,716

At the date of acquisition, the fair value of net assets acquired was close to the carrying amount.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

30. CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

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

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

	2005 \$'000	2004 \$'000
Cash consideration paid	(58,361)	(28,716)
Cash and bank balances acquired	37,795	12,069
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(20,566)	(16,647)

(d) Acquisition of businesses:

	2005 \$'000	2004 \$'000
Net assets acquired:		
Fixed assets	—	5,462
Intangible assets	—	454
Inventories	—	22,056
Accounts receivable	—	10,956
Deposits, prepayments and other receivables	—	4,222
Cash and bank balances	—	22
Accounts payable, accruals and other payables	—	(23,843)
Share of net assets at date of acquisition	—	19,329
Goodwill	—	128,219
Consideration	—	147,548
Satisfied by:		
Cash	—	22,404
Set off against accounts receivable	—	78,794
Set off against other receivable	—	46,350
	—	147,548

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

	2005 \$'000	2004 \$'000
Cash consideration	—	(22,404)
Cash and bank balances acquired	—	22
Net outflow of cash and cash equivalents in respect of the acquisition of businesses	—	(22,382)

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

30. CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(e) Disposal of subsidiaries and partial disposal of interest in a subsidiary:

(i) Disposal of subsidiaries:

	2005 \$'000	2004 \$'000
Net assets disposed:		
Fixed assets	114	—
Intangible assets	1,181	—
Inventories	1,537	—
Deposits, prepayments and other receivables	590	—
Cash and bank balances	862	—
Accounts payable, accruals and other payables	(451)	—
Taxation payable	(31)	—
	3,802	—
Loss on disposal	(3,288)	—
Release of translation reserves	(514)	—
Consideration	—	—
Satisfied by:		
Cash	—	—

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

	2005 \$'000	2004 \$'000
Cash consideration	—	—
Cash and bank balances disposed	(862)	—
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(862)	—

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

30. CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(e) Disposal of subsidiaries and partial disposal of interest in a subsidiary: (Cont'd)

(ii) Partial disposal of interest in a subsidiary:

	2005 \$'000	2004 \$'000
Net assets disposed:		
Fixed assets	796	—
Intangible assets	6	—
Inventories	2,868	—
Accounts receivable	9,721	—
Deposits, prepayments and other receivables	2,424	—
Short-term investments	7,500	—
Cash and bank balances	359	—
Accounts payable, accruals and other payables	(9,497)	—
Provisions	(240)	—
Short-term bank borrowings	(9,910)	—
Taxation payable	(161)	—
Minority interests	(1,427)	—
	2,439	—
Interest in an associated company	(951)	—
Gain on disposal	3,943	—
Consideration	5,431	—
Satisfied by:		
Cash	5,431	—

Analysis of net inflow of cash and cash equivalents in respect of the partial disposal of interest in a subsidiary:

	2005 \$'000	2004 \$'000
Cash consideration	5,431	—
Cash and bank balances disposed	(359)	—
Net inflow of cash and cash equivalents in respect of the partial disposal of interest in a subsidiary	5,072	—

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

30. CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(f) Analysis of cash and cash equivalents:

	Group	
	2005 \$'000	2004 \$'000
Cash and bank balances	336,208	202,881
Promissory notes with maturity within three months *	476,687	359,803
	812,895	562,684

* Promissory notes with maturity within three months represented receivables from certain independent third parties which were unsecured and bore interest at commercial rates. At 31st May, 2005, all the above promissory notes receivable were due for repayment in the period from June to August 2005 of which approximately \$328,799,000 was rolled over upon maturity for another one to three months.

31. CONTINGENT LIABILITIES

At 31st May, 2005, contingent liabilities not provided for by the Group and the Company were summarised below:

	Group		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Discounted bills with recourse	180,141	53,196	—	—
Guarantees given to financial and other institutions in respect of facilities granted to subsidiaries (Note 16(c))	—	—	3,881,015	2,090,423
Guarantees given to landlords in respect of rental obligations of subsidiaries	819	114	—	—
Guarantees given to customs in respect of default in customs obligations of subsidiaries	293	656	—	—

In addition, the Company guaranteed the payments and performance by several subsidiaries under certain license agreements pursuant to which the subsidiaries were licensees (Note 16(b)).

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

32. BANKING FACILITIES

- (a) At 31st May, 2005, the Group's banking facilities for bank borrowings and trade financing were secured by unconditional and continuing corporate guarantee provided by the Company and cross guarantees among its subsidiaries (*Note 16(c)*).
- (b) At 31st May, 2005, certain land and buildings (*Note 13(d)*), leasehold rights (*Note 14(c)*) and inventories (*Note 19*) were pledged as security for banking facilities granted to certain German subsidiaries of the Group.

33. COMMITMENTS

(a) Commitments under operating leases

At 31st May, 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases payable as follows:

	2005		2004	
	Leasehold land and buildings \$'000	Furniture and equipment \$'000	Leasehold land and buildings \$'000	Furniture and equipment \$'000
Payable:				
- Not later than one year	265,787	17,969	61,608	38,698
- Later than one year and not later than five years	824,218	16,677	181,078	23,108
- Later than five years	496,705	241	266,027	455
	1,586,710	34,887	508,713	62,261

(b) Commitments under license agreements

At 31st May, 2005, the Group had future aggregate minimum royalty payments under license agreements payable as follows:

	2005 \$'000	2004 \$'000
Payable:		
- Not later than one year	42,999	40,150
- Later than one year and not later than five years	164,243	129,551
- Later than five years	2,145	27,885
	209,387	197,586

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

33. COMMITMENTS *(Cont'd)*

(c) Off-balance sheet financial instruments

- (i) During the year, the Group entered into forward foreign exchange and gold contracts in order to hedge against firmly committed commercial transactions. The contracts were arranged with commercial banks and other institutions. In addition, the Group has also bought and sold some currency options. The Group had, at 31st May, 2005, outstanding forward foreign exchange contracts to buy EUR and USD and sell EUR currency with a notional principal value of approximately EUR3,800,000 (2004: EUR Nil) and US\$17,420,000 (2004: US\$Nil) and EUR935,000 (2004: EUR2,190,000) equivalent respectively, outstanding forward gold contracts to purchase gold and silver with a notional principal value of approximately US\$8,150,000 (2004: US\$7,086,000) equivalent, and written currency options (principally Euro Dollars) with a notional principal value of EUR106,560,000 (2004: EUR71,600,000), JP¥430,000,000 (2004: JP¥118,640,000), US\$Nil (2004: US\$2,000,000) and CHF1,600,000 (2004: CHF Nil) equivalent. Such outstanding contracts were scheduled to settle or expire, through March 2010.
- (ii) At 31st May, 2005, the Group had outstanding interest rate swap contracts with a notional amount of approximately \$320,000,000 (2004: \$290,000,000). Such outstanding contracts were scheduled to settle or expire, through March 2008.

(d) Purchase commitments

A subsidiary of the Group entered into purchase agreements with certain third party companies and agreed to purchase certain timepiece components and finished goods from these third party companies during the period from 2004 to 2007. At 31st May, 2005, total outstanding commitment amounted to approximately \$162,966,000 (2004: \$162,187,500).

Certain other subsidiaries of the Group entered into purchase agreements with third party companies and agreed to purchase footwear products from these third party companies during the period from 2005 to 2006. At 31st May, 2005, total outstanding commitment amounted to approximately \$407,402,000 (2004: Nil).

Save as disclosed above, neither the Group nor the Company had any significant commitments at 31st May, 2005.

34. RELATED PARTY AND CONNECTED TRANSACTIONS

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

(a) Related party transactions

- (i) During the year, the Group paid approximately \$2,305,000 (2004: \$7,403,000) (inclusive of disbursements) to International Taxation Advisory Services Limited, of which Mr. David Wai Kwong WONG, a Director of the Company, was a director, for taxation and corporate advisory services provided. The Directors consider that the fees were paid according to prices and conditions similar to those offered by other external consultants of the Group.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(a) Related party transactions (Cont'd)

(ii) During the year, the Group entered into transactions with the following associated companies and related companies. In the opinion of the Directors, the following transactions arose in the ordinary course of the Group's business:

	2005 \$'000	2004 \$'000
Interest expense to Rossolini Limited	7	8
Interest expense to Tonic	154	—
Interest expense to Amaretta	126	—
Management fee from Egana Information Technology Limited	—	120
Management fee from Amaretta	1,974	—
Advertising contribution to JOOP!	4,068	—
Purchases from Tonic	26,822	44,530
Purchases from Kuraray Co. Limited and/or its subsidiaries ("Kuraray")	26,636	104,402
Purchase from Amaretta	488	—
Purchase from JOOP!	247	—
Sales to Amaretta	276	—
Sales to Dominique	13,688	7,162
Royalties to JOOP!	12,134	10,443
Interest income from Dominique	88	111
Interest income from Tonic	—	83

(b) Connected transactions

During the year, the Group had transactions with connected parties defined in accordance with the Rules Governing the Listing of Securities on the Stock Exchange. The transactions with the connected parties during the year were as follows:

	2005 \$'000	2004 \$'000
(i) Amaretta: Purchases from Kuraray ⁽¹⁾	—	74,461
(ii) Lorica Sud s.r.l.: Purchases from Kuraray ⁽²⁾	26,636	29,941

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

(2) Purchases were transacted based on the terms stated in the Supply Agreement dated 30th March, 2000, while prices were pre-determined as per the price list dated 12th January, 2001 and as amended on 24th February, 2003.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

- (c) At 31st May, 2005, the amounts due from/(to) associated companies were unsecured, non-interest bearing and repayable within one year except for amounts of approximately \$732,000 due to associated companies and an amount of approximately \$14,000 due from an associated company which bore interest at commercial lending rates.
- (d) At 31st May, 2005, the amounts due to Directors were unsecured, non-interest bearing and repayable within one year.
- (e) At 31st May, 2005, loan from a minority shareholder was unsecured, bore interest at commercial lending rates and repayable within one year.

35. SUBSEQUENT EVENTS

- (a) Subsequent to 31st May, 2005, the Company issued and allotted shares to CSFB as described in Note 26(a), resulting in an increase in shareholders' funds of approximately \$4,674,000. On 9th August, 2005, the Stock Exchange granted the listing approval to a subsidiary as described in Note 26(b) for the issuance of Tranche 4a convertible bonds of up to US\$5,000,000 to Merrill Lynch. As at 14th September, 2005, Merrill Lynch has exercised its conversion rights to convert US\$2,000,000 Tranche 4a convertible bonds into ordinary shares of the subsidiary, resulting in an increase in shareholders' funds of approximately \$15,600,000. The outstanding US\$3,000,000 Tranche 4a convertible bonds will be expiring on 31st March, 2009.
- (b) On 8th June, 2005, the Company entered into a loan agreement with a syndicate of banks in respect of a EUR60,000,000 loan facility ("EUR60 million Loan Facility"). The proceeds of the EUR60 million Loan Facility have been used to (i) refinance the acquisitions of the Salamander trademark, Salamander leather and footwear businesses in Europe (except Germany) and Salamander retail shops' operations in Germany (these transactions have been disclosed in the Company's announcement dated 7th March, 2005 and a circular dated 24th March, 2005) and (ii) to finance the Company's general working capital requirements. The EUR60 million Loan Facility should be repaid in full on or before 7th June, 2010.
- (c) On 31st August, 2005, the Company entered into a loan agreement with a syndicate of banks in respect of a US\$16 million loan facility ("US\$16 million Loan Facility"). The proceeds of the US\$16 million Loan Facility are being used for general corporate funding of the Group. The US\$16 million Loan Facility should be repaid in full on or before 31st July, 2008.

36. APPROVAL OF THE ACCOUNTS

The accounts were approved by the Board of Directors on 14th September, 2005.