

# 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 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 Society of Accountants (“HKSA”). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain investments in non-trading securities and leasehold land and buildings are stated at fair value or valuation, respectively.

In the current year, the Group adopted the following revised and new Statements of Standard Accounting Practice (“SSAPs”) issued by the HKSA which are effective for accounting periods commencing on or after 1st January, 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34 (revised)	:	Employee benefits

The adoption of the above SSAPs does not have material impact on the accounts of the Group except for the adoption of SSAP 34 (revised), the effect of which is set out in the accounting policy below.

Certain presentation changes have been made to the comparative figures upon the adoption of SSAP 1 (revised) and SSAP 15 (revised).

# 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 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.

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

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

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

In the Company's balance sheet, the 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/negative goodwill (net of accumulated amortisation and 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 sheet 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.

In prior years, the profit and loss of foreign enterprises was translated at closing rate. This is a change in accounting policy, however, the translation of the profit and loss of foreign enterprises in prior years has not been restated as the effect of this change is not material to prior years.

# NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

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

#### (iii) Translation of foreign currencies *(Cont'd)*

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.

### (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, 2003. 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 subjected 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.

# NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

### (c) Fixed assets (Cont'd)

#### (iii) 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:

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) Impairment and gain or loss on sale

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

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

# NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

### (d) Assets under leases

#### (i) Finance leases

Leases that 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 net assets of the acquired subsidiary/associated company at the date of acquisition.

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

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

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

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

Goodwill on acquisitions occurring on or after 1st January, 2001 is included in intangible assets and is amortised using the straight-line method over estimated useful lives of 15 to 20 years.

Goodwill on acquisitions that occurred prior to 1st January, 2001 was written off against reserves in the year of acquisition or amortised over a period of 15 years. Any impairment arising on the goodwill previously written off against reserves is accounted for in the profit and loss account.

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

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

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

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

# 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) 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 5 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.

#### (iii) Other intangible assets

Other intangible assets represent (1) costs of licences and trademarks acquired from third parties, which are amortised using the straight-line method over their estimated useful lives, but not exceeding 20 years; (2) costs incurred for acquisition of a business name which is amortised using the straight-line method over the term of the acquisition agreement of 5 years and (3) costs of acquiring know-how of businesses which are amortised using the straight-line method over their estimated useful lives of 15 years.

#### (iv) Impairment of intangible assets

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



# NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

### **(f) Investments in securities**

#### (i) Non-trading securities

Investments which are held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the fair 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.

### **(g) Inventories**

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

### **(h) Accounts receivable**

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

# NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

### (i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash 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.

### (j) 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 provision

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

# NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

### **(k) 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.

#### (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 pension 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.

# NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

### **(k) Employee benefits** *(Cont'd)*

#### (iii) Pension obligations *(Cont'd)*

For defined benefit 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 immediately as incurred. Past service costs are recognised as an expense on a straight-line basis over the average period until benefits become vested.

On the first adoption of SSAP 34 (revised) at 1st June, 2002, a transitional liability of the defined benefits plans, representing the present value of the defined benefits obligations based on the actuarial valuation, was greater than the amount of defined benefits liability previously recorded by the Group before the adoption of SSAP 34 (revised) by approximately \$10,093,000.

The amount has been recognised retrospectively with the effect that the retained profits of the Group at 1st June, 2002 was decreased by approximately \$10,093,000 (Note 29) and the corresponding increase in liability has been included in the balance sheet as "Pensions and other post retirement obligations". Comparative figures have not been restated as an independent actuarial valuation has not been conducted to ascertain the defined benefits plans' positions as of 1st January, 2001.

# NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

### **(l) Deferred taxation**

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

### **(m) 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.

### **(n) 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) franchising income.

# NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

### (o) 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) Interest income

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

# NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

### **(o) Revenue recognition** *(Cont'd)*

#### (vii) Rental income

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

#### (viii) Dividend income

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

### **(p) 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.

### **(q) 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.

Segment assets consist of primarily fixed assets, intangible assets, deferred tax assets, investments (*Note 3(a) and Note 18*), inventories, receivables and operating cash. Segment liabilities comprise mainly operating liabilities. Capital expenditure comprises additions to fixed assets and intangible assets which include such additions resulting from acquisitions of subsidiaries.

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.

# NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

### **(r) Off-balance sheet financial instruments**

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

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

Assets 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.



# NOTES TO THE ACCOUNTS

(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 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 listed/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.

# NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

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

	Year ended 31st May, 2003					Group \$'000
	Timepiece products \$'000	Jewellery products \$'000	Leather & lifestyle		Eliminations \$'000	
			products \$'000	Investments \$'000		
Turnover	1,304,433	718,382	555,102	—	—	2,577,917
Inter-segment revenue	12,152	5,198	7,517	—	(24,867)	—
Dividend income	—	—	—	454	—	454
Segment results	108,051	61,426	15,318	12,810	—	197,605
Finance costs						(83,254)
Profit before share of profit of associated companies						114,351
Share of profit of associated companies						12,267
Profit before taxation						126,618
Taxation						(20,727)
Profit after taxation						105,891
Minority interests						(17,842)
Profit attributable to shareholders						88,049
Segment assets	1,512,021	767,861	711,176	286,391	—	3,277,449
Interests in associated companies	95,285	(59)	363	—	—	95,589
Total assets						3,373,038
Segment liabilities	(1,134,111)	(374,484)	(457,882)	—	—	(1,966,477)
Total liabilities						(1,966,477)
Capital expenditure	18,132	28,738	34,225	—	—	81,095
Depreciation	19,972	10,308	14,729	—	—	45,009
Amortisation	19,139	2,476	13,097	—	—	34,712
Impairment of fixed assets recognised in the profit and loss account	63	—	—	—	—	63
Write-back of provision for bad debts	1,329	151	115	—	—	1,595
Bad debt expense	4,937	3,446	1,034	—	—	9,417
Write-back of provision for inventory obsolescence	3,845	—	—	—	—	3,845
Provision for inventory obsolescence	10,443	—	497	—	—	10,940

# NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

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

	17-month period ended 31st May, 2002					
	Timepiece	Jewellery	Leather & lifestyle	Investments	Eliminations	Group
	products	products	products			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Turnover	1,691,993	855,738	626,499	—	—	3,174,230
Inter-segment revenue	16,194	8,771	11,249	—	(36,214)	—
Dividend income	—	—	—	29,754	—	29,754
Segment results	103,305	65,568	(16,693)	35,340	—	187,520
Finance costs						(112,646)
Profit before share of loss of associated companies						74,874
Share of loss of associated companies						(1,681)
Profit before taxation						73,193
Taxation						(10,381)
Profit after taxation						62,812
Minority interests						(10,710)
Profit attributable to shareholders						52,102
Segment assets	1,343,393	659,883	597,016	423,019	—	3,023,311
Interests in associated companies	100,313	(57)	375	—	—	100,631
Total assets						3,123,942
Segment liabilities	(1,047,634)	(351,568)	(315,021)	—	—	(1,714,223)
Total liabilities						(1,714,223)
Capital expenditure	69,999	9,508	106,086	—	—	185,593
Depreciation	27,581	14,304	23,267	—	—	65,152
Amortisation	24,504	4,336	13,129	—	—	41,969
Write-back of provision for bad debts	8,000	—	—	—	—	8,000
Bad debt expense	6,146	4,979	3,218	—	—	14,343
Write-back of provision for inventory obsolescence	18,407	—	—	—	—	18,407
Provision for inventory obsolescence	5,667	—	463	—	—	6,130

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

#### (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		At 31st May,	
	31st May, 2003		2003	
	Turnover	Segment results	Capital expenditure	Total assets
	\$'000	\$'000	\$'000	\$'000
Europe	1,919,295	172,023	64,123	1,571,652
America	120,022	(23,068)	4,105	84,792
Asia Pacific	538,600	48,650	12,867	1,621,005
	<b>2,577,917</b>	<b>197,605</b>	<b>81,095</b>	<b>3,277,449</b>
Interests in associated companies				<b>95,589</b>
Total assets				<b>3,373,038</b>

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

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 4. OTHER REVENUES

	<b>Year ended</b> <b>31st May,</b> <b>2003</b> <b>\$'000</b>	17-month period ended 31st May, 2002 \$'000
Interest income	<b>48,240</b>	64,088
Dividend income	<b>454</b>	29,754
Rental income, net of outgoings	<b>2,724</b>	4,145
Gain on disposal of investments in non-trading securities, net (a)	<b>13,774</b>	5,097
Gain on partial disposal of interest in a subsidiary	—	79,973
Gain on disposal of intangible assets, net	—	2,696
Gain on revaluation of trading securities	<b>144</b>	489
Consideration received in connection with the sharing of certain information of customer portfolio with a third party	—	10,234
Write-back of provision for potential liabilities associated with a settled legal case	—	14,500
Redemption premium received on maturity of equity-linked notes	<b>8,360</b>	1,695
Effect of changes in exchange rates on foreign currency denominated commercial transactions (b)	<b>89,553</b>	175
Others	<b>10,925</b>	12,695
	<b>174,174</b>	225,541

# NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 4. OTHER REVENUES (Cont'd)

Notes:

- (a) The amount comprised (i) a gain of \$53,530,000 resulting from the Group's divestment of certain of its equity interests in two unlisted closed-end funds newly acquired during the year and private companies for a total consideration of \$174,700,000 and (ii) a loss of approximately \$39,756,000 resulting from the Group's divestment of certain of its equity interests in listed companies in Hong Kong (including a loss of approximately \$37,999,000 from disposal of a listed strategic investment) for a total consideration of \$14,440,000.
- (b) The amount mainly represented the net exchange gain of approximately \$91,747,000 relating to inter-company financing arrangement and foreign currency options.

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 the current year, 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 \$136,419,000 was recognised by the Group in accordance with its accounting policy (*Note 2(b)(iii)*), comprising (i) approximately \$48,442,000 as a result of the repayment of approximately EUR23 million by Junghans Germany during the year and (ii) approximately \$87,977,000 as a result of the retranslation of the remaining outstanding balance of approximately EUR39 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, 2003, the Group's outstanding written foreign currency options with a notional principal value of EUR44,500,000 (2002: EUR13,350,000) equivalent were marked to market in accordance with the Group's accounting policy on currency options (*Note 2(r)*) resulting in an unrealised exchange loss of approximately \$44,672,000 (2002: \$1,880,000).

The remaining amount of approximately \$2,194,000 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)

### 5. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	<b>Year ended 31st May, 2003 \$'000</b>	17-month period ended 31st May, 2002 \$'000
<b>Crediting:</b>		
Interest income from		
- bank deposits	<b>5,651</b>	23,717
- promissory notes	<b>33,406</b>	18,855
- convertible notes	—	11,151
- equity-linked notes	<b>1,322</b>	—
- others	<b>7,861</b>	10,365
Dividend income from		
- listed non-trading securities	<b>454</b>	2,050
- unlisted non-trading securities	—	27,704
Rental income, net of outgoings	<b>2,724</b>	4,145
Gain on disposal of investments in unlisted non-trading securities ( <i>Note 4(a)</i> )	<b>53,530</b>	5,097
Gain on revaluation of listed trading securities	<b>144</b>	489
Gain on partial disposal of interest in a subsidiary	—	79,973
Gain on disposal of intangible assets, net	—	2,696
Consideration received in connection with the sharing of certain information of customer portfolio with a third party	—	10,234
Write-back of provision for potential liabilities associated with a settled legal case	—	14,500
Effect of changes in exchange rates ( <i>Note 4(b)</i> )	<b>89,553</b>	175
Repairing income	<b>204</b>	3,165
Write-back of provision for inventory obsolescence	<b>3,845</b>	18,407
Write-back of provision for bad debts	<b>1,595</b>	8,000

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 5. OPERATING PROFIT (Cont'd)

	<b>Year ended</b>	17-month
	<b>31st May,</b>	period ended
	<b>2003</b>	31st May,
	<b>\$'000</b>	2002
		\$'000
<b>Charging:</b>		
Staff costs (including Directors' emoluments) (Note 11)	<b>522,057</b>	697,270
Depreciation on		
- owned fixed assets	<b>44,878</b>	64,865
- leased fixed assets	<b>131</b>	287
Loss on revaluation of fixed assets	<b>42</b>	125
Impairment of fixed assets	<b>63</b>	—
Loss on disposal of fixed assets	<b>753</b>	133
Amortisation of intangible assets (Note 14)	<b>34,712</b>	41,969
Amortisation of goodwill/negative goodwill arising		
on acquisition of associated companies (Note 17(b))	<b>8,875</b>	5,356
Loss on disposal of interests in		
associated companies, net	<b>1,363</b>	711
Loss on disposal of investments in listed		
non-trading securities (Note 4(a))	<b>39,756</b>	—
Auditors' remuneration		
- current year/period	<b>12,245</b>	21,069
- prior year under-provision	<b>1,498</b>	1,240
Operating leases		
- land and buildings	<b>75,129</b>	86,144
- hire of furniture and equipment	<b>21,970</b>	11,694
Provision for inventory obsolescence	<b>10,940</b>	6,130
Bad debt expense	<b>9,417</b>	14,343



## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 6. FINANCE COSTS

	<b>Year ended 31st May, 2003 \$'000</b>	17-month period ended 31st May, 2002 \$'000
Interest on bank borrowings		
- wholly repayable within five years	<b>56,877</b>	87,622
- not wholly repayable within five years	<b>2,000</b>	3,983
Interest on other loans and notes payable		
- wholly repayable within five years	<b>5,585</b>	3,404
- not wholly repayable within five years	<b>3,026</b>	1,656
Interest element of finance leases	<b>21</b>	60
Interest on convertible bonds/debentures	<b>222</b>	1,000
Bank charges	<b>15,523</b>	14,921
	<b>83,254</b>	112,646

### 7. TAXATION

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

	<b>Year ended 31st May, 2003 \$'000</b>	17-month period ended 31st May, 2002 \$'000
Current taxation:		
Hong Kong profits tax		
- Provision for the year/period	<b>4,500</b>	5,570
- Under-provision in prior years	<b>3,520</b>	722
Overseas taxation		
- Provision for the year/period	<b>12,658</b>	6,865
- Over-provision in prior years	<b>(996)</b>	(305)
Deferred taxation ( <i>Note 15</i> )	<b>(1,309)</b>	(3,678)
	<b>18,373</b>	9,174
Share of taxation attributable to associated companies:		
Hong Kong profits tax	<b>2,354</b>	1,071
Overseas taxation	—	136
	<b>20,727</b>	10,381

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 7. TAXATION *(Cont'd)*

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) 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.

### 8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders included a loss of approximately \$22,084,000 of the Company (2002: a loss of \$37,125,000).

### 9. DIVIDENDS

	<b>Year ended 31st May, 2003 \$'000</b>	17-month period ended 31st May, 2002 \$'000
Interim, paid, of 1.00 cent (2002: 0.13 cent) per ordinary share	<b>11,320</b>	15,067
Final, proposed, of 3.00 cents (2002: Nil) per ordinary share	<b>33,959</b>	—
	<b>45,279</b>	15,067

During the year, an interim dividend of approximately \$11,320,000 (2002: \$15,067,000) was declared and fully paid on 29th April, 2003.

At a meeting held on 29th September, 2003, the Directors proposed a final dividend of 3.00 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, 2004.

The Directors also recommended that such final dividend be satisfied in cash, with an option to receive new shares at the shareholders' option pursuant to a scrip dividend scheme. The market value of the shares to be issued under the scrip dividend scheme was fixed by reference to the average of the closing price of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five consecutive trading days ending on (and including) 29th September, 2003.

# 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 \$88,049,000 (2002: \$52,102,000) and the weighted average number of ordinary shares of approximately 1,127,415,000 (2002: 1,147,080,000) in issue during the year.

### (b) Diluted earnings per share

The diluted earnings per share was calculated based on the consolidated profit attributable to shareholders for the year of approximately \$88,087,000 (2002: \$52,102,000) and the weighted average number of ordinary shares of approximately 1,139,535,000 (2002: 1,147,133,000) that would be in issue having 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:

	<b>Year ended 31st May, 2003 \$'000</b>	17-month period ended 31st May, 2002 \$'000
Profit attributable to shareholders used in calculating basic earnings per share	<b>88,049</b>	52,102
Interest savings in respect of convertible bonds/debentures	<b>38</b>	—
Profit attributable to shareholders used in calculating diluted earnings per share	<b>88,087</b>	52,102

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 10. EARNINGS PER SHARE *(Cont'd)*

#### (c) Reconciliation *(Cont'd)*

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

	<b>Year ended 31st May, 2003</b>	17-month period ended 31st May, 2002
Weighted average number of ordinary shares used in calculating basic earnings per share	<b>1,127,415,000</b>	1,147,080,000
Dilutive potential effect in respect of		
- convertible bonds/debentures	<b>11,881,000</b>	—
- share options of the Company	<b>239,000</b>	53,000
Weighted average number of ordinary shares used in calculating diluted earnings per share	<b>1,139,535,000</b>	1,147,133,000

### 11. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	<b>Year ended 31st May, 2003</b>	17-month period ended 31st May, 2002
	<b>\$'000</b>	\$'000
Wages and salaries	<b>512,561</b>	691,891
Provision for long service payment	<b>941</b>	—
Pension costs		
- Defined benefits plans <i>(Note 27(b))</i>	<b>7,753</b>	2,763
- Defined contribution plan <i>(Note 27(a))</i>	<b>2,438</b>	3,799
Less: Refund of forfeited contributions <i>(Note 27(a))</i>	<b>(1,636)</b>	(1,183)
	<b>522,057</b>	697,270

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

#### (a) Directors' emoluments

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

	<b>Year ended 31st May, 2003 \$'000</b>	17-month period ended 31st May, 2002 \$'000
Fees		
- Executive Directors	—	—
- Non-executive Directors	—	—
Other emoluments for Executive Directors		
- Basic salaries, housing allowances, other allowances and benefits in kind	<b>8,933</b>	13,014
- Contributions to pension schemes	<b>386</b>	616
- Bonuses *	<b>120</b>	472
Other emoluments for Non-executive Directors	—	—
	<b>9,439</b>	14,102

\* *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 MANAGEMENT'S EMOLUMENTS (Cont'd)

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

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

	Number of directors	
	Year ended 31st May, 2003	17-month period ended 31st May, 2002
Executive Directors -		
\$1,500,001 - \$2,000,000	1	—
\$2,000,001 - \$2,500,000	1	1
\$3,500,001 - \$4,000,000	—	1
\$5,000,001 - \$5,500,000	1	—
\$8,000,001 - \$8,500,000	—	1
	<b>3</b>	<b>3</b>
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.

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Cont'd)

#### (b) Five highest paid individuals

- (i) The five individuals whose emoluments were highest in the Group for the year included two (2002: three) Directors whose emoluments were set out in the analysis presented above. The emoluments payable to the remaining three (2002: two) individuals during the year were analysed below:

	<b>Year ended 31st May, 2003 \$'000</b>	17-month period ended 31st May, 2002 \$'000
Basic salaries, housing allowances, other allowances and benefits in kind	<b>4,794</b>	5,797
Bonuses	<b>504</b>	89
	<b>5,298</b>	5,886

- (ii) The emoluments of the aforementioned three (2002: two) non-director employees fell within the following bands:

	<b>Number of individuals</b>	
	<b>Year ended 31st May, 2003</b>	17-month period ended 31st May, 2002
\$1,500,001 - \$2,000,000	<b>3</b>	—
\$2,500,001 - \$3,000,000	—	1
\$3,000,001 - \$3,500,000	—	1
	<b>3</b>	2

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

# NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 13. FIXED ASSETS

### Group

	<b>Freehold land and buildings</b>	<b>Leasehold land and buildings</b>	<b>Leasehold improvements</b>	<b>Furniture and equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Cost or valuation</b>						
At 1st June, 2002	76,666	32,130	31,890	359,994	7,990	508,670
Additions	176	—	5,417	42,415	2,158	50,166
Acquisition of subsidiaries	—	—	562	682	291	1,535
Revaluation	—	(1,560)	—	—	—	(1,560)
Disposals	(28,726)	—	(5,366)	(30,115)	(3,141)	(67,348)
Exchange adjustments	16,159	—	6,383	108,929	1,134	132,605
<b>At 31st May, 2003</b>	<b>64,275</b>	<b>30,570</b>	<b>38,886</b>	<b>481,905</b>	<b>8,432</b>	<b>624,068</b>
Representing:						
At cost	64,275	—	38,886	481,905	8,432	593,498
At 2003 valuation	—	30,570	—	—	—	30,570
<b>At 31st May, 2003</b>	<b>64,275</b>	<b>30,570</b>	<b>38,886</b>	<b>481,905</b>	<b>8,432</b>	<b>624,068</b>
<b>Accumulated depreciation and impairment losses</b>						
At 1st June, 2002	21,111	298	21,665	259,749	4,911	307,734
Charge for the year	2,482	721	4,251	36,215	1,340	45,009
Impairment losses	—	—	—	63	—	63
Revaluation	—	(1,019)	—	—	—	(1,019)
Disposals	(3,329)	—	(5,366)	(21,765)	(2,654)	(33,114)
Exchange adjustments	6,133	—	5,057	91,702	603	103,495
<b>At 31st May, 2003</b>	<b>26,397</b>	<b>—</b>	<b>25,607</b>	<b>365,964</b>	<b>4,200</b>	<b>422,168</b>
<b>Net book value</b>						
<b>At 31st May, 2003</b>	<b>37,878</b>	<b>30,570</b>	<b>13,279</b>	<b>115,941</b>	<b>4,232</b>	<b>201,900</b>
At 31st May, 2002	55,555	31,832	10,225	100,245	3,079	200,936



# 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 were situated in Hong Kong and were revalued on 31st May, 2003 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, 2003 would have been approximately \$31,494,000 (2002: \$32,359,000).

At 31st May, 2003, the aggregate property revaluation reserve was approximately \$2,017,000 (2002: \$2,516,000). Decreases in valuation set off against property revaluation reserve on earlier valuations in respect of same properties and debited to profit and loss account during the year amounted to \$499,000 (2002: \$453,000) and \$42,000 (2002: \$125,000) respectively.

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

	<b>2003</b>	2002
	<b>\$'000</b>	\$'000
In Hong Kong, held on:		
Leases of over 50 years	<b>1,300</b>	1,586
Leases of between 10 to 50 years	<b>29,270</b>	30,246
Outside Hong Kong, held on:		
Freehold	<b>37,878</b>	55,555
	<b>68,448</b>	87,387

- (c) The net book value of furniture and equipment and motor vehicles held under finance leases at 31st May, 2003 amounted to approximately \$163,000 (2002: \$326,000) and \$200,000 (2002: \$237,000) respectively.
- (d) At 31st May, 2003, certain land and buildings with an aggregate net book value of approximately \$27,799,000 (2002: \$33,970,000) were pledged as securities for banking facilities granted to certain German subsidiaries of the Group (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	Business name acquired \$'000	Know-how \$'000	Goodwill \$'000	Total \$'000
<b>Cost or valuation</b>						
At 1st June, 2002	465,066	32,227	12,000	19,772	1,696	530,761
Acquisition of subsidiaries (a)	14,250	1,780	—	—	—	16,030
Additions	2,459	3,267	—	7,638	—	13,364
Disposals	(10,320)	—	—	—	—	(10,320)
Write-off	(88)	(218)	(12,000)	—	—	(12,306)
Exchange adjustments	7,541	8,571	—	1,071	—	17,183
<b>At 31st May, 2003</b>	<b>478,908</b>	<b>45,627</b>	<b>—</b>	<b>28,481</b>	<b>1,696</b>	<b>554,712</b>
<b>Accumulated amortisation</b>						
At 1st June, 2002	85,267	11,374	12,000	6,611	71	115,323
Charge for the year	25,543	7,801	—	1,284	84	34,712
Disposals	(1,608)	—	—	—	—	(1,608)
Write-off	(88)	(218)	(12,000)	—	—	(12,306)
Exchange adjustments	5,672	4,514	—	—	—	10,186
<b>At 31st May, 2003</b>	<b>114,786</b>	<b>23,471</b>	<b>—</b>	<b>7,895</b>	<b>155</b>	<b>146,307</b>
<b>Net book value</b>						
<b>At 31st May, 2003</b>	<b>364,122</b>	<b>22,156</b>	<b>—</b>	<b>20,586</b>	<b>1,541</b>	<b>408,405</b>
At 31st May, 2002	379,799	20,853	—	13,161	1,625	415,438

*Note:*

- (a) In September 2002, the Group acquired a German leather group, Comtesse GmbH and its subsidiaries and its trademark (the "Comtesse Trademark"). The Group engaged an independent professional valuer, LCH (Asia-Pacific) Surveyors Limited, to perform an independent valuation for the Comtesse Trademark, which indicated that the fair market value of the trademark at the acquisition date was approximately \$41 million. However, in accordance with SSAP 30 "Business combinations", if the fair value of an intangible asset being acquired in a business combination cannot be measured by reference to an active market, the amount recognised for that intangible asset at the date of the acquisition should be limited to an amount that does not create or increase negative goodwill that arises on the acquisition. Accordingly, the acquisition cost of Comtesse Trademark recognised by the Group was limited to an amount of approximately \$14 million.

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 15. DEFERRED TAX ASSETS/(LIABILITIES)

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

#### Group

	<b>2003</b>	2002
	<b>\$'000</b>	\$'000
Beginning of year/period	<b>54,789</b>	(10,873)
Exchange adjustments	<b>16,476</b>	(16)
Reversal of deferred tax liabilities ( <i>Note 7</i> )	<b>1,309</b>	3,678
Recognised during the year/period	—	62,000
End of year/period	<b>72,574</b>	54,789
Provided for in respect of:		
Accelerated depreciation allowances	<b>(4,785)</b>	(3,595)
Prepayments	—	(2,499)
Overseas deferred income	<b>(641)</b>	(1,117)
Overseas tax losses carried forward	<b>78,000</b>	62,000
	<b>72,574</b>	54,789

No deferred taxation was provided for property revaluation surplus as such surplus would not constitute a timing 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)

### 16. INTERESTS IN SUBSIDIARIES

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

	<b>2003</b>	2002
	<b>\$'000</b>	\$'000
Shares listed in Hong Kong, at cost	<b>97,548</b>	97,548
Unlisted shares, at cost	<b>328,239</b>	304,462
Less: Accumulated impairment loss	<b>(14,000)</b>	—
	<b>411,787</b>	402,010
Market value of shares listed in Hong Kong	<b>426,775</b>	520,850

*Notes:*

- (a) Amounts due from/(to) subsidiaries were unsecured and repayable on demand. Except for an amount of approximately \$288,586,000 (2002: \$85,917,000) due from a subsidiary which bore interest at commercial lending rate, the remaining balances were non-interest bearing.
- (b) At 31st May, 2003, 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, 2003, the Company provided corporate guarantees to commercial banks of approximately \$1,719,442,000 (2002: \$1,441,048,000) to secure banking facilities of certain subsidiaries (*Note 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, 2003.

## 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, 2003:

Name	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
# Abel & Zimmermann GmbH & Co KG	Germany	EUR511,292	—	62.87	Manufacturing and distribution of jewellery
# Argenta Die Brillen GmbH	Germany	EUR511,300	—	100	Distribution of glasses and similar accessories
Bartelli (Holdings) Limited	British Virgin Islands	US\$1	—	100	Licensing of leather trademark
Bartelli Leather Products Limited	Hong Kong	\$10,000	—	100	Manufacturing and distribution of leather products
# @ Calibre Jewellery (Shenzhen) Co. Ltd.	The People's Republic of China (the "PRC")	US\$600,000	—	73.97	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
Collection Uhren und Schmuck GmbH	Germany	EUR25,565	—	100	Distribution of watches

## 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	Percentage of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
Comtesse Accessoires GmbH & Co. (a)	Germany	EUR2,000,000	—	100	Manufacturing and distribution of leather products
Comtesse GmbH (a)	Germany	EUR520,000	—	100	Manufacturing and distribution of leather products
Eco-Haru (Far East) Limited	Hong Kong	\$500,000	—	100	Distribution of watches
Eco-Haru Mfr. Holdings Limited	British Virgin Islands	US\$1	100	—	Investment holding
Eco-Haru Property Investments Limited	Hong Kong	\$2	—	100	Property holding
Eco Swiss China Time Limited	Hong Kong	\$26,000,000	100	—	Inactive
Egana Asial Company Limited	Samoa/The PRC	\$1,000	—	60	Assembly of watches
Egana.Com Inc.	British Virgin Islands	US\$100	—	100	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	—	Inactive

## 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	Percentage of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
Egana Finance Limited	Hong Kong	\$2	100	—	Group treasury
EganaGoldpfeil Europe (Holdings) GmbH (Formerly known as Egana Europe (Holdings) GmbH)	Germany	EUR2,600,000	100	—	Investment holding
# EganaGoldpfeil Italia s.r.l. (Formerly known as Egana Italia s.r.l.)	Italy	EUR25,823	—	100	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	—	73.97	Investment holding and licensing operation
* Egana Jewellery & Pearls Limited	Cayman Islands/ Hong Kong	\$155,102,935	52.33	21.64	Investment holding
Egana Jewelry & Pearls (America) Corp.	The United States of America	US\$881,000	—	73.97	Design and distribution of jewellery

## 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	Percentage of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
# Egana Juwelen & Perlen Handels GmbH	Austria	EUR36,336	—	73.97	Distribution of jewellery
Egana Marketing (Suisse) Inc.	Cook Islands	US\$1	—	73.97	Provision of marketing and consultancy services
Egana Schmuck und Perlen GmbH	Germany	EUR25,565	—	73.97	Design and distribution of jewellery
# Egana Suisse (Holdings) SA	Switzerland	CHF100,000	—	100	Investment holding
# Egana Suisse SA	Switzerland	CHF1,000,000	—	100	Design, manufacturing and distribution of watches
Egana of Switzerland (America) Corp.	The United States of America	US\$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	Percentage of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
European Technology & Logistic Center GmbH (Formerly known as Beta Uhrenvertriebs GmbH)	Germany	EUR38,400	—	100	Technology and logistic center
Everstone Limited	Hong Kong/ The PRC	\$100	—	73.97	Subcontracting and manufacturing of jewellery
Funasia Investments Limited	British Virgin Islands	US\$14,000,001	—	100	Investment holding
Glorious Concept Limited	British Virgin Islands	US\$10	—	100	Investment holding
# Gold Arrow, Inc.	The United States of America	US\$2,089,111	—	100	Investment holding
Goldpfeil AG	Germany	EUR3,579,043	—	100	Design, manufacturing and distribution of luxury leather goods
# Goldpfeil America, Inc.	The United States of America	US\$9,546,219	—	100	Investment holding
Goldpfeil Distribution and Services Limited	Hong Kong	\$500,000	—	100	Distribution and retailing of leather products

## 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	Percentage of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
# Goldpfeil Genève S.A.	Switzerland	CHF100,000	—	100	Distribution of watches
# Guthmann & Wittenauer Schmuck GmbH (b)	Germany	EUR1,500,000	—	73.97	Manufacturing and distribution of jewellery
# Haru Holding & Management GmbH	Germany	EUR2,300,850	—	100	Investment holding
Haru Japan Corporation, Inc.	Japan	JPY30,000,000	—	100	Distribution of timepieces, jewellery, and sourcing agent for pearls
# Haru-Kuraray GmbH	Germany	EUR1,022,600	—	55	Distribution of man-made leather
Jacquelin Designs Enterprises, Inc.	The United States of America	—	—	73.97	Design and distribution of jewellery
Junghans Asia Limited	Hong Kong	\$1,000	—	90	Distribution of watches
Junghans Asia (Holdings) Limited	British Virgin Islands	US\$100	—	90	Investment holding
Junghans Group Limited (b)	British Virgin Islands	US\$1	—	100	Investment holding

## 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	Percentage of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
Junghans Uhren GmbH	Germany	EUR5,112,919	—	100	Manufacturing and distribution of watches
Kai-Yin Lo Limited	Hong Kong	\$2,600,000	—	100	Design, manufacturing and retailing of jewellery
# Keimothai Limited	Thailand	Baht81,000,000	—	73.97	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	—	73.97	Design, manufacturing, distribution and licensee of jewellery
P.C. International Marketing Limited	British Virgin Islands/France	US\$1	100	—	Licensing of watches and jewellery trademarks/brand names
Pioneer Ventures Limited	Hong Kong	\$100	—	100	General trading and quality inspection
# Rebner GmbH	Germany	EUR25,564	—	62.87	Investment holding

## 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	Percentage of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
Time Success Industrial Limited	Hong Kong	\$2	—	73.97	Property holding
Towercham Limited	Island of Nevis, West Indies	STG2	—	100	Provision of marketing and consultancy services
Zeitmesstechnik GmbH	Germany	EUR99,702	—	100	Provision of timepiece repair and maintenance services

*Notes:*

- (a) The Group acquired a German leather group, Comtesse GmbH and its subsidiaries in September 2002.
- (b) The Group set up two new subsidiaries, Guthmann & Wittenauer Schmuck GmbH and Junghans Group Limited, in April 2003.

\* *Listed on the Stock Exchange*

# *Audited by certified public accountants other than PricewaterhouseCoopers*

@ *Wholly foreign owned enterprise incorporated in the PRC*

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 17. INTERESTS IN ASSOCIATED COMPANIES

	<b>Group</b>	
	<b>2003</b>	2002
	<b>\$'000</b>	\$'000
Share of net assets/(liabilities)		
Company listed in Hong Kong	<b>93,279</b>	88,635
Unlisted companies	<b>(955)</b>	(144)
	<b>92,324</b>	88,491
Negative goodwill	<b>(5,935)</b>	(6,260)
Goodwill	<b>9,200</b>	18,400
	<b>95,589</b>	100,631
The Group's share of the market value of the company listed in Hong Kong	<b>38,751</b>	57,442

The underlying value of interests in associated companies was, in the opinion of the Directors, not less than the carrying value at 31st May, 2003.

The following is a list of the principal associated companies at 31st May, 2003:

Name	Place of incorporation/ operation	Particulars of issued shares held	Percentage of interest held		Principal activities
			directly	indirectly	
			%	%	
Dominique Roger Diffusion S.A.R.L. ("Dominique")	France	Ordinary shares of EUR14 each	—	30.00	Distribution and marketing of timepieces and jewellery
Egana Information Technology Limited ("EIT")	Hong Kong	Ordinary shares of \$1 each	—	50.00(a)	Development, marketing, implementation and maintenance of Enterprise Resource Planning (ERP) systems and Logistic and Manufacturing (L & M) systems

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 17. INTERESTS IN ASSOCIATED COMPANIES (Cont'd)

Name	Place of incorporation/ operation	Particulars of issued shares held	Percentage of interest held		Principal activities
			directly	indirectly	
			%	%	
Supreme Stars Group Limited ("Supreme Stars")	British Virgin Islands	Ordinary shares of US\$1 each	—	50.00(b)	Investment holding
Tonic Industries Holdings Limited ("Tonic")*	Cayman Islands/ Hong Kong	Ordinary shares of \$0.1 each	—	24.40(c)	Design, manufacturing and marketing of audio, video and home appliance products

\* Listed on the Stock Exchange

*Notes:*

- (a) EIT, a company incorporated in Hong Kong, is a wholly-owned subsidiary of Supreme Stars.
- (b) In March 2001, the Group acquired a 50% interest in an associated company at a consideration of \$25,000,000 and the corresponding goodwill of \$24,000,000 was recognised and amortised over the estimated useful life of 5 years on a straight line basis. Beginning from the current year, the Directors reviewed the amortisation period of such goodwill and were of the opinion that the expected remaining useful life of such goodwill should be reduced to 2 years. Such change was accounted for as a change in accounting estimate and an additional goodwill amortisation of \$4,400,000 was recorded in the profit and loss account during the year (Note 5).

# NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 17. INTERESTS IN ASSOCIATED COMPANIES (Cont'd)

- (c) In July 2002, the Group disposed of certain equity interest in Tonic for a consideration of approximately \$673,000, resulting in a loss of approximately \$1,363,000 during the year.

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, 2003 and for the year then ended was set out below:

	<b>31st March, 2003 \$'000 (Audited)#</b>	31st March, 2002 \$'000 (Audited)#
<b>Balance sheet</b>		
Non-current assets	<b>514,605</b>	512,654
Current assets	<b>609,170</b>	399,919
<b>Total assets</b>	<b>1,123,775</b>	912,573
Capital and reserves	<b>406,049</b>	380,645
Non-current liabilities	<b>67,876</b>	86,085
Current liabilities	<b>649,850</b>	445,843
<b>Total equity and liabilities</b>	<b>1,123,775</b>	912,573
<b>Profit and loss account</b>		
Turnover	<b>2,680,277</b>	2,013,623
Gross profit	<b>148,625</b>	84,166
Operating profit	<b>66,197</b>	22,609
Profit before taxation	<b>53,495</b>	10,762
Net profit for the year	<b>43,868</b>	9,240

# Audited by certified public accountants other than PricewaterhouseCoopers

# NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 18. INVESTMENTS IN NON-TRADING SECURITIES

	Group		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Equity securities:				
Strategic investments (a)	<b>241,193</b>	356,726	<b>43,199</b>	47,847
Others (b)	<b>37,824</b>	60,784	<b>521</b>	3
	<b>279,017</b>	417,510	<b>43,720</b>	47,850

Notes:

(a) Strategic investments:

	Group	
	2003 \$'000	2002 \$'000
Listed in Hong Kong, at quoted market price (i)	—	6,919
Unlisted, at fair value		
— Investment in a third party private company/companies (ii)	<b>37,055</b>	110,404
— Private closed-end funds (iii)	<b>204,138</b>	169,403
— Gas supply project (iv)	—	70,000
	<b>241,193</b>	349,807
	<b>241,193</b>	356,726

  

	Company	
	2003 \$'000	2002 \$'000
Unlisted, at fair value	<b>43,199</b>	47,847

(i) In November 2002, the Group divested equity interest in a Hong Kong listed company for a total consideration of approximately \$2,837,000, resulting in a loss of approximately \$37,999,000 during the year.

(ii) At 1st June 2002, the Group had strategic investments in two third party private companies with a view to enhancing the Group's distribution network in Asia. The principal activities of these two companies are (i) exploitation of forest, processing of wood as well as trading of consumer and wood products and (ii) investment holding, distribution and trading of fashion accessory products, respectively.

During the year, the Group fully divested its equity interest in one of the private companies and partially disposed of certain of its equity interest in the other private company for a total consideration of approximately \$102 million, resulting in a gain on disposal of \$35,980,000 during the year.



## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

At 31st May, 2003, the remaining equity interest of 12.5% in one of the private companies was stated at fair value as determined by the Directors and a revaluation surplus of approximately \$1,014,000 was credited to the revaluation reserve.

- (iii) At 1st June, 2002, the Group had strategic investments in five 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 Greater China markets. The five funds are under the management of a third party Hong Kong listed investment banking group (the "LISTED CO"). At 31st May, 2003, the funds were stated at their fair values as determined by the Directors and a revaluation deficit of approximately \$10,027,000 was transferred to the revaluation reserve.
- (iv) At 1st June, 2002, the Group had a 3% interest in a in-house gas supply project in the PRC through a private closed-end fund managed by the LISTED CO amounting to \$70 million with a view to introducing Junghans systems watch program to public utility facilities. In November 2002, the Group disposed of the investment at cost due to delay by the project operator to obtain necessary government approval of the gas supply project.
- (v) In the opinion of the Directors, there was no impairment in the carrying value of these non-trading securities at 31st May, 2003.

(b) Others:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>\$'000</b>	\$'000
Listed in Hong Kong, at quoted market price (i)	<b>37,360</b>	60,047
Unlisted, at fair value	<b>464</b>	737
	<b>37,824</b>	60,784
	<b>Company</b>	
	<b>2003</b>	2002
	<b>\$'000</b>	\$'000
Listed in Hong Kong, at quoted market price	<b>206</b>	3
Unlisted, at fair value	<b>315</b>	—
	<b>521</b>	3

- (i) In March 2003, the Group divested certain equity interests in Hong Kong listed companies for a total consideration of approximately \$11,602,000, resulting in net losses of approximately \$1,757,000 during the year.

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 19. INVENTORIES

	Group	
	2003	2002
	\$'000	\$'000
Raw materials	274,250	188,017
Work-in-progress	69,485	67,694
Finished goods	509,158	446,168
	852,893	701,879
Less: Provision for inventory obsolescence	(118,789)	(111,598)
	734,104	590,281

At 31st May, 2003, no inventory was carried at net realisable value.

At 31st May, 2003, the carrying amount of inventories that was pledged as securities for banking facilities granted to a German subsidiary of the Group amounted to \$44,417,000 (2002: Nil) (*Note 32(b)*).

### 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, 2003 after provision for bad and doubtful debts is as follows:

	Group	
	2003	2002
	\$'000	\$'000
<b>Due</b>		
In current month	543,511	194,750
Between one to two months	24,096	26,402
Between two to three months	10,871	10,673
Between three to four months	9,655	5,323
Over four months	34,756	35,666
	622,889	272,814

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 21. SHORT-TERM INVESTMENTS

	<b>Group</b>	
	<b>2003</b>	2002
	<b>\$'000</b>	\$'000
Equity-linked notes (a)	<b>7,038</b>	120,500
Promissory notes with maturity more than three months and less than one year (b)	<b>60,520</b>	54,571
Short-term deposits (c)	<b>79,198</b>	135,189
Trading securities listed outside Hong Kong	<b>7,374</b>	5,509
	<b>154,130</b>	315,769

*Notes:*

- (a) At 31st May, 2003, the Group had investments in certain short-term equity-linked notes (the "ELNs") issued by an independent third party private company (the "Note Issuer"), in which the controlling shareholder of the LISTED CO as mentioned in Note 18(a)(iii) has a beneficial interest.

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

The ELNs or any part thereof are convertible into shares of a company listed on the Stock Exchange at a specified conversion price (subject to adjustments) at the option of the Group. The Group also had the right to demand the Note Issuer to redeem any notes not previously converted at redemption amounts equal to 104% of the principal amounts. Subsequent to 31st May, 2003, all ELNs were redeemed by the Note Issuer upon maturity.

- (b) Promissory notes with maturity more than three months and less than one year represented receivables from two independent third parties which were unsecured and bore interest at commercial rates. At 31st May, 2003, one of the promissory note receivable was due for repayment in June 2003 and was rolled over upon maturity for another three months while the other one was due for repayment in November 2003.
- (c) The Group placed short-term deposits of approximately \$79 million with the LISTED CO mentioned in Note 18(a)(iii) in connection with the Group's proposed acquisitions of three target companies. The deposits were unsecured and non-interest bearing. Subsequent to year end, the whole amount was withdrawn by the Group at cost.

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 22. ACCOUNTS PAYABLE, ACCRUALS AND OTHER PAYABLES

	Group		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Accounts payable	<b>231,467</b>	213,610	—	—
Accruals and other payables	<b>345,371</b>	219,714	<b>10,236</b>	20,251
	<b>576,838</b>	433,324	<b>10,236</b>	20,251

At 31st May, 2003, the aging analysis of the accounts payable was as follows:

	Group	
	2003 \$'000	2002 \$'000
<b>Due</b>		
In current month	<b>196,720</b>	169,918
Between one to two months	<b>16,246</b>	15,516
Between two to three months	<b>5,364</b>	4,406
Between three to four months	<b>2,455</b>	4,690
Over four months	<b>10,682</b>	19,080
	<b>231,467</b>	213,610

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 23. PROVISIONS

#### Group

	<b>Warranty (a)</b>	<b>Restructuring (b)</b>	<b>Others (c)</b>	<b>Total</b>
	\$'000	\$'000	\$'000	\$'000
At 1st June, 2002	37,269	4,576	2,983	44,828
Additional provisions	633	8,752	—	9,385
Less: Amounts utilised	(8,761)	(4,358)	—	(13,119)
Less: Unused amounts reversed	(5,720)	(2,984)	(234)	(8,938)
Exchange adjustments	7,644	1,375	706	9,725
<b>At 31st May, 2003</b>	<b>31,065</b>	<b>7,361</b>	<b>3,455</b>	<b>41,881</b>

#### 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.
- (b) Restructuring provision: The restructuring provision was related to the restructuring plans of German subsidiaries of the Group. The provision was expected to be fully utilised during 2004.
- (c) Other provisions: The provision at 31st May, 2003 was mainly related to the environmental risks of tearing down certain old buildings of an overseas subsidiary.

### 24. SHORT-TERM BANK BORROWINGS

	<b>Group</b>		<b>Company</b>	
	<b>2003</b>	2002	<b>2003</b>	2002
	\$'000	\$'000	\$'000	\$'000
Bank loans and overdrafts	<b>526,994</b>	537,068	—	23,291
Trust receipts and import loans	<b>97,155</b>	80,587	—	—
	<b>624,149</b>	617,655	—	23,291

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 25. LONG-TERM LIABILITIES

	Group		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Long-term bank borrowings (a)	<b>349,046</b>	396,684	<b>228,500</b>	344,429
Other long-term loans (b)	<b>20,154</b>	6,327	—	—
Obligations under finance leases (c)	<b>422</b>	680	—	—
Loan from a related party (d)	<b>9,066</b>	—	—	—
	<b>378,688</b>	403,691	<b>228,500</b>	344,429
Current portion of long-term liabilities	<b>(194,524)</b>	(134,581)	<b>(149,500)</b>	(125,929)
	<b>184,164</b>	269,110	<b>79,000</b>	218,500

Notes:

(a) Long-term bank borrowings:

	Group		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Repayable				
- within one year				
- secured	<b>5,708</b>	2,380	—	—
- unsecured	<b>182,150</b>	129,272	<b>149,500</b>	125,929
- in the second year				
- secured	<b>1,998</b>	5,128	—	—
- unsecured	<b>111,436</b>	143,630	<b>79,000</b>	139,500
- in the third to fifth year				
- secured	<b>15,677</b>	6,765	—	—
- unsecured	<b>9,996</b>	88,522	—	79,000
- after five years				
- secured	<b>22,005</b>	20,987	—	—
- unsecured	<b>76</b>	—	—	—
	<b>349,046</b>	396,684	<b>228,500</b>	344,429
Current portion included in current liabilities	<b>(187,858)</b>	(131,652)	<b>(149,500)</b>	(125,929)
	<b>161,188</b>	265,032	<b>79,000</b>	218,500

At 31st May, 2003, long-term bank borrowings not wholly repayable within five years of approximately \$32,100,000 (2002: \$10,375,000) were repayable by installments.

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 25. LONG-TERM LIABILITIES (Cont'd)

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

	Group	
	2003 \$'000	2002 \$'000
Repayable		
- within one year, unsecured	333	2,581
- in the second year, unsecured	765	2,604
- in the third to fifth year, unsecured	1,470	425
- after the fifth year, unsecured	17,586	717
	<b>20,154</b>	6,327
Current portion included in current liabilities	<b>(333)</b>	(2,581)
	<b>19,821</b>	3,746

At 31st May, 2003, other loans not wholly repayable within five years of approximately \$19,567,000 (2002: \$1,390,000) were repayable by installments.

(c) Obligations under finance lease liabilities:

	Group	
	2003 \$'000	2002 \$'000
Lease payments payable		
- within one year	317	371
- in the second year	120	219
- in the third to fifth year	22	135
	<b>459</b>	725
Future finance charges on finance leases	<b>(37)</b>	(45)
Present value of finance lease liabilities	<b>422</b>	680

The present value of finance lease liabilities was as follows:

	Group	
	2003 \$'000	2002 \$'000
Repayable		
- within one year	289	348
- in the second year	111	205
- in the third to fifth year	22	127
Present value of finance lease liabilities	<b>422</b>	680
Current portion included in current liabilities	<b>(289)</b>	(348)
	<b>133</b>	332

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 25. LONG-TERM LIABILITIES (Cont'd)

- (d) Loan from a related party:

	Group	
	2003 \$'000	2002 \$'000
Repayable		
- within one year	6,044	—
- in the second year	3,022	—
	9,066	—
Current portion included in current liabilities	(6,044)	—
	3,022	—

Loan from a related party was unsecured, bore interest at commercial lending rate and was repayable by installments.

### 26. CONVERTIBLE BONDS/DEBENTURES

	Group and Company	
	2003 \$'000	2002 \$'000
Beginning of year/period (a)	13,260	55,380
Converted to ordinary shares (a)	(13,260)	(42,120)
Issued during the year (b)	78,000	—
End of year/period	78,000	13,260
Current portion included in current liabilities	—	(13,260)
	78,000	—

*Notes:*

- (a) On 15th December, 1999, the Company issued convertible debentures (the "Debentures") of US\$15 million to a third party. Such Debentures were due on 15th December, 2002. All the Debentures were converted into the Company's ordinary shares before maturity.
- (b) On 27th February, 2003, the Company issued new convertible bonds (the "Tranche 1 Bonds") of US\$10 million to a third party. Such Tranche 1 Bonds bore interest at the rate of 1.0% per annum and will be due on 27th February, 2006 (the "Maturity Date"). At any time from and including the date falling 50 business days after 27th February, 2003 up to the close of business on the day falling one week prior to the Maturity Date, the Tranche 1 Bonds might be converted at a conversion price calculated by the formula defined in the subscription agreement (the "Subscription Agreement") at the option of this third party.

Pursuant to the Subscription Agreement, the Company granted to this third party an option, exercisable at any time commencing on 27th February, 2003 until the Maturity Date, to require the Company to issue additional Tranche 1 Bonds up to US\$5 million at a conversion price calculated by the formula defined in the Subscription Agreement.

Under the Subscription Agreement, this third party also granted to the Company an option, to require this third party to subscribe and pay for additional convertible bonds (the "Tranche 2 Bonds") in the aggregate amount of up to US\$10 million (on substantially the same terms as in the Tranche 1 Bonds), subject to the satisfaction of certain conditions stipulated in the Subscription Agreement.



## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 27. PENSIONS AND OTHER POST RETIREMENT OBLIGATIONS

	<b>2003</b>	2002
	<b>\$'000</b>	\$'000
Obligations on:		
- pensions - defined contribution plan (a)	—	—
- pensions - defined benefits plans (b)	<b>137,527</b>	95,697
	<b>137,527</b>	95,697

*Notes:*

(a) Pensions - defined contribution plan

The Group has participated in the defined Mandatory Provident Fund scheme in Hong Kong since 1st December, 2000 and made monthly contributions to the scheme based on 5%-7% of the employees' basic salaries. The contributions are subject to a maximum of \$1,000 per employee per month and thereafter contributions are voluntary. During the year ended 31st May, 2003, the Group's employer's contribution to the scheme was approximately \$2,438,000 (2002: \$3,799,000). The assets of the scheme are held separately from those of the Group and are managed by independent professional fund managers.

Forfeited contributions totaling \$1,636,000 (2002: \$1,183,000) were utilised during the year leaving \$802,000 (2002: \$2,616,000) available at the year-end to reduce future contributions (*Note 11*).

(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, 2003, 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, 2003 by qualified actuaries, Hofer Vorsorge-Management and M&L Gesellschaft f-r Versicherungsmathematik mbH using the projected unit credit method. The main actuarial assumptions were as follows:

Interest rate	5%-6%
Expected rate of future salary increases	1.5%
Expected future pension increases	1%-2.5%

## 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 profit and loss account were as follows:

	<b>Year ended 31st May, 2003 \$'000</b>
Current service cost	<b>1,337</b>
Interest cost	<b>6,499</b>
Net actuarial losses recognised	<b>34</b>
Past service cost	<b>—</b>
Losses on curtailment	<b>(117)</b>
Total included in staff costs <i>(Note 11)</i>	<b>7,753</b>

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

	<b>2003 \$'000</b>
Beginning of year, as previously reported	<b>95,697</b>
Effect of change in accounting policy upon adoption of SSAP 34 (revised) <i>(Note 2(k)(iii))</i>	<b>10,093</b>
Beginning of year, as restated	<b>105,790</b>
Exchange adjustments	<b>27,979</b>
Liabilities acquired on acquisition of subsidiaries	<b>4,111</b>
Expenses recognised in the profit and loss account - as shown above	<b>7,753</b>
Benefits paid	<b>(8,106)</b>
End of year	<b>137,527</b>
Current portion included in current liabilities	<b>(10,503)</b>
	<b>127,024</b>

# NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 28. SHARE CAPITAL

Share capital comprised:

	2003	2002	2003	2002
	Number of ordinary shares		\$'000	\$'000
<b>Authorised:</b>				
Beginning of year/period	20,000,000,000	20,000,000,000	2,000,000	2,000,000
Effect of Share Consolidation (a)	(18,000,000,000)	—	—	—
End of year/period	2,000,000,000	20,000,000,000	2,000,000	2,000,000
<b>Issued and fully paid:</b>				
Ordinary shares:				
Beginning of year/period	11,215,674,898	11,325,472,648	1,121,567	1,132,547
Effect of Share Consolidation (a)	(10,094,107,409)	—	—	—
Issued upon conversion of convertible debentures	10,409,273	285,902,250	10,409	28,590
Shares repurchased	—	(395,700,000)	—	(39,570)
End of year/period	1,131,976,762	11,215,674,898	1,131,976	1,121,567

Note:

- (a) On 5th September, 2002, every 10 shares of \$0.10 each in the issued and unissued share capital of the Company were consolidated into one share of \$1.00 each (the "Share Consolidation").

### Share options

A 10-year Executive Share Option Scheme of the Company (the "Scheme") was 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 TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 28. SHARE CAPITAL (Cont'd)

Notes:

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

	Number of share options (Adjusted for the Share Consolidation)	
	2003 '000	2002 '000
Beginning of year/period	45,598	46,243
Lapsed on expiry	(216)	(645)
End of year/period	45,382	45,598

No share options were granted (2002: Nil), exercised (2002: Nil) or cancelled (2002: Nil) during the year.

- (b) At 31st May, 2003, details of outstanding share options were as follows:

Date granted	Expiry date	2003 After the Share Consolidation			2002 Before the Share Consolidation		
		Exercise price \$	No. of options	No. of options vested	Exercise price \$	No. of options	No. of options vested
<b>Directors</b>							
06/04/1994	06/04/2004	1.28	58,000	—	0.128	580,000	—
09/01/2000	09/01/2010	2.11	12,500,000	10,000,000	0.211	125,000,000	75,000,000
17/01/2000	17/01/2010	2.11	500,000	400,000	0.211	5,000,000	3,000,000
			<b>13,058,000</b>	<b>10,400,000</b>		130,580,000	78,000,000
<b>Employees under continuous contracts (excluding Directors)</b>							
06/04/1994	06/04/2004	1.28	108,000	—	0.128	1,080,000	—
15/03/1997 to 27/09/1997	15/03/2007 to 27/09/2007	3.45	1,206,200	—	0.345	14,220,000	—
07/01/2000 to 25/02/2000	07/01/2010 to 25/02/2010	2.11	31,010,000	24,804,000	0.211	310,100,000	185,980,000
			<b>32,324,200</b>	<b>24,804,000</b>		325,400,000	185,980,000
			<b>45,382,200</b>	<b>35,204,000</b>		455,980,000	263,980,000

# NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 29. RESERVES

Group	Year ended 31st May, 2003								
	Share	Exchange	Retained	Revaluation	Capital		Legal	Other	Total
	premium	translation	profits	reserve	redemption	Goodwill	reserve	reserve	
	account	reserve	profits	reserve	reserve	Goodwill	reserve	reserve	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Beginning of year, as previously reported	324,674	(106,486)	366,243	8,715	40,801	(460,935)	270	580	173,862
Effect of adopting SSAP 34 (revised) (Note 2(k)(iii))	—	—	(10,093)	—	—	—	—	—	(10,093)
Beginning of year, as restated	324,674	(106,486)	356,150	8,715	40,801	(460,935)	270	580	163,769
Share premium arising from conversion of convertible debentures	2,851	—	—	—	—	—	—	—	2,851
Expenses incurred in connection with conversion of convertible debentures	(183)	—	—	—	—	—	—	—	(183)
Disposal of equity interests in an associated company	—	—	—	—	—	467	—	—	467
Share of an associated company's revaluation deficit of fixed assets	—	—	—	(2,774)	—	—	—	—	(2,774)
Share of an associated company's exchange translation reserve	—	589	—	—	—	—	—	—	589
Revaluation of listed non-trading securities	—	—	—	(10,806)	—	—	—	—	(10,806)
Revaluation of unlisted non-trading securities	—	—	—	(9,013)	—	—	—	—	(9,013)
Revaluation of leasehold land and buildings	—	—	—	(499)	—	—	—	—	(499)
Disposal of listed non-trading securities	—	—	—	33,446	—	—	—	—	33,446
Disposal of unlisted non-trading securities	—	—	—	(19,807)	—	—	—	—	(19,807)
Write-off of listed non-trading securities	—	—	—	912	—	—	—	—	912
Exchange differences arising on translation of the accounts of foreign subsidiaries	—	(90,950)	—	—	—	—	—	—	(90,950)
Profit attributable to shareholders	—	—	88,049	—	—	—	—	—	88,049
Dividends paid	—	—	(11,320)	—	—	—	—	—	(11,320)
End of year	327,342	(196,847)	432,879	174	40,801	(460,468)	270	580	144,731
Representing:									
2003 Final dividend proposed			33,959						
Others			398,920						
Retained profits, end of year			432,879						
Representing:									
Company and subsidiaries	327,342	(196,523)	387,218	(1,088)	40,801	(435,622)	270	580	122,978
Associated companies	—	(324)	45,661	1,262	—	(24,846)	—	—	21,753
End of year	327,342	(196,847)	432,879	174	40,801	(460,468)	270	580	144,731

# NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 29. RESERVES (Cont'd)

Group (Cont'd)	17-month period ended 31st May, 2002								
	Share	Exchange	Retained	Revaluation	Capital		Legal	Other	Total
	premium	translation			reemption	Goodwill			
	account	reserve	profits	reserve	reserve	Goodwill	reserve	reserve	\$'000
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Beginning of period	352,650	(99,665)	368,778	(4,795)	1,231	(522,529)	270	587	96,527
Share premium arising									
from conversion of convertible debentures	13,530	—	—	—	—	—	—	—	13,530
Expenses incurred in connection with conversion of convertible debentures	(21)	—	—	—	—	—	—	—	(21)
Repurchases of shares (including expenses incurred)	(41,485)	—	(39,570)	—	39,570	—	—	—	(41,485)
Disposal of equity interests in associated companies	—	—	—	(4,391)	—	8,715	—	—	4,324
Impairment of goodwill previously written off against reserves	—	—	—	—	—	73	—	—	73
Share of an associated company's revaluation surplus of fixed assets	—	—	—	4,036	—	—	—	—	4,036
Revaluation of listed non-trading securities	—	—	—	(18,265)	—	—	—	—	(18,265)
Revaluation of unlisted non-trading securities	—	—	—	32,583	—	—	—	—	32,583
Revaluation of leasehold land and buildings	—	—	—	(453)	—	—	—	—	(453)
Other statutory reserve	—	—	—	—	—	—	—	(7)	(7)
Subsequent adjustment to goodwill as a result of recognition of deferred tax assets	—	—	—	—	—	62,000	—	—	62,000
Other subsequent adjustments to goodwill	—	—	—	—	—	(9,194)	—	—	(9,194)
Exchange differences arising on translation of the accounts of foreign subsidiaries	—	(6,821)	—	—	—	—	—	—	(6,821)
Profit attributable to shareholders	—	—	52,102	—	—	—	—	—	52,102
Dividends paid	—	—	(15,067)	—	—	—	—	—	(15,067)
End of period	324,674	(106,486)	366,243	8,715	40,801	(460,935)	270	580	173,862
Representing:									
Company and subsidiaries	324,674	(105,573)	328,171	13,214	40,801	(435,622)	270	580	166,515
Associated companies	—	(913)	38,072	(4,499)	—	(25,313)	—	—	7,347
End of period	324,674	(106,486)	366,243	8,715	40,801	(460,935)	270	580	173,862

# NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 29. RESERVES (Cont'd)

### Company

Year ended 31st May, 2003

	Share	Retained	Revaluation	Capital	Other	Total
	premium			redemption		
	account			reserve		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Beginning of year	324,674	124,095	2,848	40,801	457	492,875
Share premium arising from conversion of convertible debentures	2,851	—	—	—	—	2,851
Expenses incurred in connection with conversion of convertible debentures	(183)	—	—	—	—	(183)
Revaluation of listed non-trading securities	—	—	16	—	—	16
Revaluation of unlisted non-trading securities	—	—	(4,648)	—	—	(4,648)
Loss for the year	—	(22,084)	—	—	—	(22,084)
Dividends paid	—	(11,320)	—	—	—	(11,320)
End of year	327,342	90,691	(1,784)	40,801	457	457,507
Representing:						
2003 Final dividend proposed		33,959				
Others		56,732				
Retained profits, end of year		90,691				

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 29. RESERVES (Cont'd)

#### Company (Cont'd)

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



## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 30. CONSOLIDATED CASH FLOW STATEMENT

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

	<b>Year ended 31st May, 2003 \$'000</b>	17-month period ended 31st May, 2002 \$'000
Profit before share of profit/(loss) of associated companies	<b>114,351</b>	74,874
Depreciation of fixed assets	<b>45,009</b>	65,152
Loss on revaluation of fixed assets	<b>42</b>	125
Impairment of fixed assets	<b>63</b>	—
Loss on disposal of fixed assets	<b>753</b>	133
Amortisation of intangible assets	<b>34,712</b>	41,969
Gain on disposal of intangible assets, net	—	(2,696)
Negative goodwill arising on acquisition of a subsidiary recognised as income	—	(144)
Impairment of goodwill previously written off against reserves	—	73
Gain on partial disposal of interest in a subsidiary	—	(79,973)
Amortisation of goodwill/negative goodwill arising on acquisition of associated companies, net	<b>8,875</b>	5,356
Loss on disposal of interests in associated companies, net	<b>1,363</b>	711
Dividend income	<b>(454)</b>	(29,754)
Gain on revaluation of trading securities	<b>(144)</b>	(489)
Gain on disposal of investments in non-trading securities, net	<b>(13,774)</b>	(5,097)
Redemption premium received on maturity of equity-linked notes	<b>(8,360)</b>	(1,695)
Interest income	<b>(48,240)</b>	(64,088)
Interest expense	<b>67,731</b>	97,725
Write-back of provision for potential liabilities associated with a settled legal case	—	(14,500)
Provision for inventory obsolescence	<b>10,940</b>	6,130
Write-back of provision for inventory obsolescence	<b>(3,845)</b>	(18,407)
Bad debt expense	<b>9,417</b>	14,343
Write-back of provision for bad debts	<b>(1,595)</b>	(8,000)
Operating profit before working capital changes	<b>216,844</b>	81,748
(Increase)/Decrease in inventories	<b>(42,405)</b>	29,660
(Increase)/Decrease in accounts receivable	<b>(321,974)</b>	124,268
Increase in deposits, prepayments and other receivables	<b>(146,618)</b>	(74,770)
Decrease/(Increase) in due from associated companies	<b>66,889</b>	(64,129)
Decrease in accounts payable, accruals and other payables	<b>(14,121)</b>	(20,388)
(Decrease)/Increase in provisions	<b>(12,672)</b>	4,050
Decrease in bills payable	<b>(11,009)</b>	(24,140)
Increase in provision for pensions and other post retirement obligations	<b>27,626</b>	19,838
Increase/(Decrease) in due to associated companies	<b>3,421</b>	(5,598)
Increase/(Decrease) in due to Directors	<b>35</b>	(315)
Net cash (outflow)/inflow generated from operations	<b>(233,984)</b>	70,224

# 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 during the year:

	Year ended 31st May, 2003									17-month		
	Share		Dividend payable	Long-term	Other	Loan from	Finance	Convertible	Minority interests	Total	31st May, 2002	Total
	capital	Short-term		bank	long-term	a related	leases	bonds/				
	(including share premium)	bank borrowings	bank borrowings	loans	party obligations	obligations	debentures					
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Beginning of year/period,												
as previously reported	1,446,241	617,655	—	396,684	21,908	—	680	13,260	114,290	2,610,718	2,001,084	
Effect of adopting SSAP 29	—	—	—	—	—	—	—	—	—	—	(4,011)	
Effect of adopting SSAP 34 (revised)												
(Note 2(k)(iii))	—	—	—	—	(15,581)	—	—	—	—	(15,581)	—	
Beginning of year/period, as restated	1,446,241	617,655	—	396,684	6,327	—	680	13,260	114,290	2,595,137	1,997,073	
(Repayment)/proceeds from borrowings, net	—	(107,448)	—	(77,860)	9,463	—	(365)	—	—	(176,210)	339,252	
Conversion of convertible debentures	13,260	—	—	—	—	—	—	(13,260)	—	—	—	
Payment of expenses incurred for												
conversion of convertible debentures	(183)	—	—	—	—	—	—	—	—	(183)	(21)	
Repurchases of shares	—	—	—	—	—	—	—	—	—	—	(81,055)	
Proceeds from issuance of												
convertible bonds	—	—	—	—	—	—	—	78,000	—	78,000	—	
Dividends paid	—	—	(11,320)	—	—	—	—	—	—	(11,320)	(15,067)	
Acquisition of subsidiaries	—	27,228	—	—	—	7,558	—	—	—	34,786	3,978	
Acquisition of an additional interest												
in a subsidiary	—	—	—	—	—	—	—	—	—	—	(4,251)	
Partial disposal of a subsidiary	—	—	—	—	—	—	—	—	—	—	27	
Dividends paid to minority shareholders												
of subsidiaries	—	—	—	—	—	—	—	—	(5,245)	(5,245)	(1,211)	
Dividend declared	—	—	11,320	—	—	—	—	—	—	11,320	15,067	
Share of profit by minority shareholders												
of subsidiaries	—	—	—	—	—	—	—	—	17,842	17,842	10,710	
Share of revaluation surplus												
of non-trading securities by minority												
shareholders of subsidiaries	—	—	—	—	—	—	—	—	2,595	2,595	8,413	
Inception of finance lease	—	—	—	—	—	—	—	—	—	—	168	
Subsequent adjustment to goodwill	—	—	—	—	—	—	—	—	—	—	4,344	
Exchange adjustments	—	86,714	—	30,222	4,364	1,508	107	—	372	123,287	(4,250)	
End of year/period	1,459,318	624,149	—	349,046	20,154	9,066	422	78,000	129,854	2,670,009	2,273,177	

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 30. CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(c) Acquisition of subsidiaries:

	<b>Year ended 31st May, 2003 \$'000</b>	17-month period ended 31st May, 2002 \$'000
Net assets acquired:		
Fixed assets	<b>1,535</b>	382
Intangible assets	<b>16,030</b>	48
Investments in non-trading securities	<b>18</b>	—
Inventories	<b>39,581</b>	10,208
Accounts receivable	<b>8,868</b>	3,686
Deposits, prepayments and other receivables	<b>2,295</b>	7,729
Cash and bank balances	<b>4,920</b>	18
Accounts payable, accruals and other payables	<b>(20,355)</b>	(4,255)
Provisions	—	(89)
Short-term bank borrowings	<b>(27,228)</b>	(13,398)
Current portion of loan from a related party	<b>(5,039)</b>	—
Taxation payable	<b>(108)</b>	(207)
Long-term bank borrowings	—	(3,442)
Loan from a related party	<b>(2,519)</b>	—
Pensions and other post retirement obligations	<b>(4,111)</b>	—
	<b>13,887</b>	680
Minority interest	—	(536)
Share of net assets at date of acquisition	<b>13,887</b>	144
Negative goodwill	—	(144)
Consideration	<b>13,887</b>	—
Satisfied by:		
Cash (i)	<b>13,887</b>	—

- (i) During the year, the Group has paid an amount of approximately \$6,054,000 and the remaining amount of approximately \$7,833,000 was included in "Accounts payable, accruals and other payables" at 31st May, 2003.

## 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)/inflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

	<b>Year ended 31st May, 2003 \$'000</b>	17-month period ended 31st May, 2002 \$'000
Cash consideration	<b>(6,054)</b>	—
Cash and bank balances acquired	<b>4,920</b>	18
Net (outflow)/inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<b>(1,134)</b>	18

(d) Major non-cash transaction:

During the year, the Group disposed of its equity interests in certain unlisted companies as mentioned in Note 4(a) for a total consideration of \$145,700,000 which was recorded under "Deposits, prepayments and other receivables" at 31st May, 2003.

(e) Analysis of cash and cash equivalents:

	<b>Group</b>	
	<b>2003 \$'000</b>	2002 \$'000
Cash and bank balances	<b>142,231</b>	274,216
Promissory notes with maturity within three months*	<b>210,035</b>	133,388
	<b>352,266</b>	407,604

\* 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, 2003, all the above promissory notes receivable were due for repayment in the period from June to August 2003 of which approximately \$78 million was rolled over upon maturity for periods ranging from one to three months.

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 31. CONTINGENT LIABILITIES

At 31st May, 2003, contingent liabilities not provided for by the Group and the Company were summarised below:

	Group		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Discounted bills with recourse	<b>204,403</b>	40,048	—	—
Guarantees given to financial institutions in respect of facilities granted to Group companies (Note 16(c))	—	—	<b>1,719,442</b>	1,441,048
Guarantees given to financial institutions in respect of facilities granted to a third party	—	14,620	—	—
Guarantees given to landlords in respect of rental obligations of Group companies	<b>56</b>	3,658	—	—
Guarantees given to customs in respect of default in customs obligations of Group companies	<b>278</b>	5,568	—	—

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

### 32. BANKING FACILITIES

(a) At 31st May, 2003, 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, 2003, certain land and buildings (Note 13(d)) and inventories (Note 19) were pledged as securities for banking facilities granted to certain German subsidiaries of the Group.

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 33.COMMITMENTS

#### (a) Commitments under operating leases

At 31st May, 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases payable as follows:

	2003		2002	
	Leasehold land and buildings \$'000	Furniture and equipment \$'000	Leasehold land and buildings \$'000	Furniture and equipment \$'000
Payable:				
- Not later than one year	58,774	21,743	36,507	11,455
- Later than one year and not later than five years	177,936	37,032	70,887	9,281
- Later than five years	282,117	1,980	20,288	125
	<b>518,827</b>	<b>60,755</b>	127,682	20,861

#### (b) Commitments under license agreements

At 31st May, 2003, the Group had future aggregate minimum royalty payments under license agreements payable as follows:

	2003 \$'000	2002 \$'000
Payable:		
- Not later than one year	37,813	33,771
- Later than one year and not later than five years	69,481	77,985
- Later than five years	—	1,743
	<b>107,294</b>	113,499

## 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 contracts in order to hedge firmly committed non-Hong Kong dollar commercial transactions. The contracts were arranged with commercial banks. In addition, the Group has also bought and sold some currency options. The Group had, at 31st May, 2003, outstanding forward foreign exchange contracts to buy and sell currency with a notional principal value of approximately EUR2,750,000 (2002: EUR3,000,000) and EUR6,937,000 (2002: Nil) equivalent respectively, and written currency options (principally Euro dollars) with a notional principal value of EUR44,500,000 (2002: EUR13,350,000) equivalent. Such outstanding contracts were scheduled to settle or expire, through January 2004.
- (ii) At 31st May, 2003, the Group had outstanding interest rate swap contracts with a notional amount of approximately \$230 million (2002: \$324 million). Such outstanding contracts were scheduled to settle or expire, through July 2004.
- (iii) At 31st May, 2003, the Group had no (2002: \$17 million) outstanding interest rate forward contacts.

#### **(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, 2003, total outstanding commitment amounted to approximately CHF25,150,000.

Save as disclosed above, neither the Group nor the Company had any significant commitments at 31st May, 2003.

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 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 \$7,344,000 (2002: \$10,593,000) (inclusive of disbursements) to International Taxation Advisory Services Limited, of which Mr. David Wai Kwong WONG, a Non-executive Director of the Company, is a director, for taxation and corporate advisory services provided.
- (ii) 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:

	<b>Year ended 31st May, 2003 \$'000</b>	17-month period ended 31st May, 2002 \$'000
Interest expense to Rossolini Limited	<b>8</b>	11
Management fee from EIT	<b>240</b>	280
Purchases from Tonic	<b>86,782</b>	28,342
Purchases from Marubeni Deutschland GmbH ("Marubeni")	—	47,677
Purchases from Kuraray Co. Limited ("Kuraray")	<b>147,470</b>	117,759
Service fee to EIT	—	70
Sales to EIT	<b>1</b>	—
Sales to Tonic	—	66,587
Sales to Dominique	<b>5,742</b>	4,495



## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

#### (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:

	<b>Year ended 31st May, 2003 \$'000</b>	17-month period ended 31st May, 2002 \$'000
(i) Haru-Kuraray GmbH:		
Purchases from Marubeni <sup>(1)</sup>	—	47,677
Purchases from Kuraray <sup>(1)</sup>	<b>125,423</b>	83,197
	<b>125,423</b>	130,874
(ii) Lorica Sud s.r.l.:		
Purchases from Kuraray and its subsidiaries <sup>(2)</sup>	<b>22,047</b>	34,562

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

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

**(c)** At 31st May, 2003, the amounts due from/(to) associated companies were unsecured, non-interest bearing and repayable within one year except for an amount of approximately \$90,000 due to an associated company which bore interest at commercial lending rate.

**(d)** At 31st May, 2003, the amounts due to Directors were unsecured, non-interest bearing and repayable within one year.

## **NOTES TO THE ACCOUNTS**

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### **35. SUBSEQUENT EVENTS**

- (a) In June 2003, the Group, which used to be one of the licensees of a German fashion group, together with two other third party licensees of the German fashion group, formed a consortium with the result that the Group acquired one third of the equity interest in the German fashion group at a total consideration of approximately EUR5,433,000.
- (b) In June 2003, the Group acquired from a third party company a 100% interest in the distribution business in relation to timepieces, jewellery, shoes and leather accessories on a worldwide basis. The total consideration for this acquisition was EUR13,500,000.
- (c) In August 2003, the Group disposed of a 4% equity interest in Tonic for a consideration of approximately \$14,480,000. As a result, the Group's equity interest in Tonic was reduced from approximately 24.4% to 20.4%.
- (d) On 25th September, 2003, the Company entered into a loan agreement (the "Loan Agreement") with a syndicate of banks for a four-year transferable loan facility amounting to \$240,000,000 (the "Facility") to refinance the existing short term loan facilities and overdrafts of the Group, in order to match the financial commitment of the Group for medium term projects, and to finance (i) the development of the European headquarters and technology center of the Group in Germany; (ii) the development of various branded products of the Group and (iii) the Group's general working capital requirements.

### **36. APPROVAL OF THE ACCOUNTS**

The accounts were approved by the Board of Directors on 29th September, 2003.