

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

In the current year, the Group adopted the revised Statement of Standard Accounting Practice 12 - Income taxes (“SSAP 12”) issued by the HKICPA which is effective for the accounting periods commencing on or after 1st January, 2003.

The principal effect of the implementation of the revised statement is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, that is, a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. The revised statement requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the accounts and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12, the new accounting policy has been applied retrospectively. The effect of change in accounting policy has resulted in reduction in income tax of approximately \$22,108,000 in the current year, but the adoption of this revised accounting policy has not had any material effect on the results for prior accounting periods. Accordingly, no prior year adjustment is required.

Certain presentation changes have been made to the comparative figures upon the adoption of SSAP 12.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(b) Group accounting

(i) Consolidation

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

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

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

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.

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.

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)*

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 subject to depreciation and is stated at cost less accumulated impairment losses, while buildings situated thereon are stated at cost less accumulated depreciation and accumulated impairment losses.

(iii) Other fixed assets

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

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(c) Fixed assets (Cont'd)

(iv) 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 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 the disposal of an entity includes 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 and (2) 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 provisions

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

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 contribution plan is funded by payments from employees and by the relevant Group companies.

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

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

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(I) Taxation

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

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

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

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

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

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

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

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(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) inspection service fee 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) Inspection service income

Inspection service income is recognised when the related services are rendered.

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) Interest income

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

(viii) Rental income

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

(ix) Dividend income

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

(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 and businesses.

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 precious metals, foreign exchange and interest rate markets. The accounting for these instruments is dependent upon whether the transactions are undertaken for dealing or hedging purposes.

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

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

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

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. TURNOVER AND SEGMENT INFORMATION

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

(a) Primary reporting format — business segments

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

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

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

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

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. TURNOVER AND SEGMENT INFORMATION (Cont'd)

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

	Year ended 31st May, 2003					
	Timepiece	Jewellery	Leather & lifestyle	Investments	Eliminations	Group
	products	products	products			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'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/(loss) of associated companies						114,351
Share of profit/(loss) 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	1,517,447	767,861	711,176	286,391	—	3,282,875
Interests in associated companies	95,285	(59)	363	—	—	95,589
Total assets						3,378,464
Segment liabilities	(1,139,479)	(374,484)	(457,940)	—	—	(1,971,903)
Total liabilities						(1,971,903)
Capital expenditure	18,132	28,738	34,225	—	—	81,095
Depreciation	19,972	10,308	14,729	—	—	45,009
Amortisation of intangible assets	19,139	2,476	13,097	—	—	34,712
Amortisation of negative goodwill	—	—	—	—	—	—
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	3,845	—	—	—	—	3,845
Provision for inventory	10,443	—	497	—	—	10,940

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(b) Secondary reporting format — geographical segments

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

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

	Year ended 31st May, 2004		At 31st May, 2004	
	Turnover \$'000	Segment results \$'000	Capital expenditure \$'000	Total assets \$'000
Europe	2,431,755	176,526	206,475	1,741,421
America	130,868	(3,181)	3,074	69,524
Asia Pacific	950,811	55,304	12,040	2,095,599
	3,513,434	228,649	221,589	3,906,544
Interests in associated companies				130,641
Total assets				4,037,185

	Year ended 31st May, 2003		At 31st May, 2003	
	Turnover \$'000	Segment results \$'000	Capital expenditure \$'000	Total assets \$'000
Europe	1,919,295	172,023	64,123	1,572,293
America	120,022	(23,068)	4,105	84,792
Asia Pacific	538,600	48,650	12,867	1,625,790
	2,577,917	197,605	81,095	3,282,875
Interests in associated companies				95,589
Total assets				3,378,464

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

4. OTHER REVENUES

	2004	2003
	\$'000	\$'000
Interest income	34,303	48,240
Dividend income	4,576	454
Rental income, net of outgoings	2,288	2,724
Management fees	1,464	34
Gain on disposal of investments in non-trading securities, net	881	13,774
Gain on partial disposal of interest in an associated company	730	—
Gain on disposal of interest in an associated company	5,198	—
Gain on disposal of fixed assets	8,675	—
Gain on revaluation of trading securities	65	144
Franchising income (a)	32,445	—
Redemption premium received on maturity of equity-linked notes	5,896	8,360
Effect of changes in exchange rates on foreign currency denominated commercial transactions (b)	—	89,553
Others	14,974	10,891
	111,495	174,174

- (a) It represents income from the franchise of the Goldpfeil shops in Europe, together with the grant of right on a non-exclusive basis on Goldpfeil apparel and accessory items in Europe, pursuant to a 5-year agreement entered into with an independent third party during the year.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

4. OTHER REVENUES (Cont'd)

- (b) Since the acquisition of Junghans Uhren GmbH ("Junghans Germany") in 2000, a Euro-denominated inter-company loan of approximately EUR62 million was accounted for part of the Group's quasi-equity investment in Junghans Germany and no repayment had been made by Junghans Germany up to 31st May, 2002. Commencing from 1st June, 2002, due to the positive development and the profitability of Junghans Germany, the Group considers that the inter-company loan is more appropriately designated as a monetary item that requires a commitment to convert the Euro dollars to Hong Kong dollars and therefore exposes the Group to a gain or loss through currency fluctuations. Accordingly, a total exchange gain of \$11,154,000 (2003: \$136,419,000) was recognised by the Group in accordance with its accounting policy (*Note 2(b)(iii)*), comprising (i) a loss of approximately \$2,396,000 (2003: a gain of \$48,442,000) as a result of the repayment of approximately EUR3 million (2003: EUR23 million) by Junghans Germany during the year and (ii) a gain of approximately \$13,550,000 (2003: \$87,977,000) as a result of the retranslation of the remaining outstanding balance of approximately EUR36 million (2003: 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, 2004, the Group's outstanding written foreign currency options with a notional principal value of EUR71,600,000 (2003: EUR44,500,000), JPY¥118,640,000 (2003: Nil) and US\$2,000,000 (2003: Nil) equivalent were marked to market in accordance with the Group's accounting policy on currency options (*Note 2(r)*) resulting in an unrealised exchange gain of approximately \$9,400,000 (2003: a loss of \$44,672,000).

The remaining amount of approximately \$32,279,000 (2003: \$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:

	2004	2003
	\$'000	\$'000
Crediting:		
Interest income from		
- an associated company	194	—
- bank deposits	2,552	5,651
- promissory notes	29,418	33,406
- equity-linked notes	1,449	1,322
- others	690	7,861
Amortisation of negative goodwill (<i>Note 14</i>)	2,413	—
Dividend income from		
- listed non-trading securities	286	454
- unlisted non-trading securities	4,290	—
Equity-linked notes premium on redemption	5,896	8,360
Rental income, net of outgoings	2,288	2,724
Gain on disposal of investments in unlisted non-trading securities	881	53,530
Gain on revaluation of listed trading securities	65	144
Gain on disposal of a subsidiary	8	—
Gain on partial disposal of interest in an associated company	730	—
Gain on disposal of interest in an associated company	5,198	—
Gain on disposal of fixed assets	8,675	—
Franchising income	32,445	—
Effect of changes in exchange rates (<i>Note 4(b)</i>)	—	89,553
Repairing income	224	204
Write-back of provision for inventory	66,847	3,845
Write-back of provision for bad debts	899	1,595

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

5. OPERATING PROFIT (Cont'd)

	2004	2003
	\$'000	\$'000
Charging:		
Staff costs (including Directors' emoluments) (Note 11)	709,833	522,057
Depreciation on		
- owned fixed assets	51,673	44,878
- leased fixed assets	498	131
Loss on revaluation of fixed assets	—	42
Impairment of fixed assets	—	63
Loss on disposal of fixed assets	—	753
Loss on disposal of intangible assets	127	—
Amortisation of intangible assets (Note 14)	45,463	34,712
Amortisation of goodwill/negative goodwill arising		
on acquisition of associated companies	7,880	8,875
Loss on deemed disposal of interest in a subsidiary	3,429	—
Loss on disposal of interests in associated companies, net	—	1,363
Loss on disposal of investments in listed		
non-trading securities	—	39,756
Loss on dissolution of unlisted non-trading securities	2,625	—
Auditors' remuneration		
- current year	8,874	12,245
- prior year under-provision	6,807	1,498
Operating leases		
- land and buildings	76,763	75,129
- hire of furniture and equipment	24,865	21,970
Provision for inventory	—	10,940
Bad debt expense	19,955	9,417
Effect of changes in exchange rates (Note 4(b))	11,725	—

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

6. FINANCE COSTS

	2004	2003
	\$'000	\$'000
Interest on bank borrowings		
- wholly repayable within five years	54,667	56,877
- not wholly repayable within five years	1,345	2,000
Interest on other loans and notes payable		
- wholly repayable within five years	8,280	5,585
- not wholly repayable within five years	15	3,026
Interest element of finance leases	1,200	21
Interest on convertible bonds	999	222
Bank charges	25,336	15,523
	91,842	83,254

7. TAXATION

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

	2004	2003
	\$'000	\$'000
The Company and its subsidiaries		
Current taxation:		
Hong Kong profits tax		
- Provision for the year	13,535	4,500
- (Over)/Under-provision in prior years	(4,534)	3,520
Overseas taxation		
- Provision for the year	6,489	12,658
- Over-provision in prior years	(1,674)	(996)
Deferred taxation (<i>Note 15</i>)		
- Recognised during the year	(28,203)	(1,309)
	(14,387)	18,373
Share of taxation attributable to associated companies:		
Hong Kong profits tax	(1,297)	2,354
Overseas taxation	75	—
	(15,609)	20,727

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

7. TAXATION (Cont'd)

(a) (Cont'd)

Hong Kong profits tax has been provided at 17.5% (2003: 17.5%) on the estimated assessable profit arising in or derived from Hong Kong for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year provided by subsidiaries and associated companies with overseas operations at the rates of taxation prevailing in the countries in which these subsidiaries and associated companies operated.

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

	2004	2003
	\$'000	\$'000
Profit before taxation	141,895	126,618
Tax at the domestic profits tax rate of 17.5% (2003: 17.5%)	24,832	22,158
Tax effect of income not subject to taxation	(61,412)	(69,066)
Tax effect of expenses that are not deductible in determining taxable profit	25,017	57,015
Tax effect of utilisation of tax losses not previously recognised	(4,567)	(3,930)
Tax effect of tax losses not recognised	24,507	12,396
Tax effect of other temporary differences not recognised	5,390	3,361
Tax effect of other temporary differences recognised	(22,108)	—
Unutilised losses recognised	(1,594)	—
(Over)/Under-provision in prior years	(6,208)	2,524
Effect of different tax rates of subsidiaries and associated companies operating in other jurisdictions	4,889	(984)
Others	(4,355)	(2,747)
Tax expense for the year	(15,609)	20,727

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders included a profit of approximately \$1,348,000 of the Company (2003: a loss of \$22,084,000).

9. DIVIDENDS

	2004	2003
	\$'000	\$'000
Interim, paid, of 2.00 cents (2003: 1.00 cent)		
per ordinary share	23,407	11,320
Final, proposed, of 2.50 cents (2003: 3.00 cents)		
per ordinary share	29,427	33,959
	52,834	45,279

During the year, an interim dividend of approximately \$23,407,000 (2003: \$11,320,000) was declared and paid on 25th March, 2004.

At a meeting held on 27th September, 2004, the Directors proposed a final dividend of 2.50 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in the accounts, but will be reflected as an appropriation of retained profits for the year ending 31st May, 2005.

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 \$141,884,000 (2003: \$88,049,000) and the weighted average number of ordinary shares of approximately 1,149,288,000 (2003: 1,127,415,000) in issue during the year.

(b) Diluted earnings per share

The diluted earnings per share was calculated based on the adjusted consolidated profit attributable to shareholders for the year of approximately \$140,341,000 (2003: \$88,087,000) and the weighted average number of ordinary shares of approximately 1,222,494,000 (2003: 1,139,535,000) that would be in issue having been adjusted for the effects of all dilutive potential ordinary shares issuable during the year.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

10. EARNINGS PER SHARE (Cont'd)

(c) Reconciliation

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

	2004	2003
	\$'000	\$'000
Profit attributable to shareholders		
used in calculating basic earnings per share	141,884	88,049
Dilutive potential effect in the earnings of a subsidiary in respect of convertible bonds of the subsidiary	(2,135)	—
Interest savings in respect of convertible bonds	592	38
Profit attributable to shareholders used in calculating diluted earnings per share	140,341	88,087

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

	2004	2003
Weighted average number of ordinary shares used in calculating basic earnings per share	1,149,288,000	1,127,415,000
Dilutive potential effect in respect of		
- convertible bonds	73,175,000	11,881,000
- share options of the Company	31,000	239,000
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,222,494,000	1,139,535,000

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

11. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2004	2003
	\$'000	\$'000
Wages and salaries	692,674	512,561
Provision for long service payment	—	941
Pension costs		
- Defined benefits plans (<i>Note 27 (b)</i>)	14,398	7,753
- Defined contribution plan (<i>Note 27 (a)</i>)	3,060	2,438
Less: Refund of forfeited contributions (<i>Note 27 (a)</i>)	(299)	(1,636)
	709,833	522,057

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:

	2004	2003
	\$'000	\$'000
Fees		
- Executive Directors	—	—
- Non-executive Directors	—	—
Other emoluments for Executive Directors		
- Basic salaries, housing allowances, other allowances and benefits in kind	9,516	8,933
- Contributions to pension schemes	542	386
- Bonuses *	260	120
Other emoluments for Non-executive Directors	—	—
	10,318	9,439

* *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	
	2004	2003
Executive Directors -		
\$500,001 — \$1,000,000	1	—
\$1,500,001 — \$2,000,000	1	1
\$2,000,001 — \$2,500,000	1	1
\$5,000,001 — \$5,500,000	—	1
\$5,500,001 — \$6,000,000	1	—
	4	3
Non-executive Directors -		
\$Nil - \$1,000,000	3	3

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

(b) Five highest paid individuals

(i) The five individuals whose emoluments were the highest in the Group for the year included two (2003: two) Directors whose emoluments were set out in the analysis presented above. The emoluments payable to the remaining three (2003: three) individuals during the year were analysed below:

	2004	2003
	\$'000	\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	4,533	4,794
Bonuses	1,024	504
Contributions to pension schemes	55	—
	5,612	5,298

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 *(Cont'd)*

- (ii) The emoluments of the aforementioned three (2003: three) non-director employees fell within the following bands:

	Number of individuals	
	2004	2003
\$1,500,001 - \$2,000,000	2	3
\$2,000,001 - \$2,500,000	1	—
	3	3

- (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	Freehold	Leasehold		Furniture and equipment	Motor vehicles	Total
	land and buildings	land and buildings	Leasehold improvements			
	\$'000	\$'000	\$'000			
Cost or valuation						
At 1st June, 2003	64,275	30,570	38,886	481,905	8,432	624,068
Additions	—	—	7,981	41,581	562	50,124
Acquisition of a subsidiary	23,109	—	—	8,889	—	31,998
Acquisition of businesses	—	—	1,974	3,488	—	5,462
Disposals	(141)	—	(2,620)	(61,312)	(1,587)	(65,660)
Exchange adjustments	3,791	—	1,479	21,349	250	26,869
At 31st May, 2004	91,034	30,570	47,700	495,900	7,657	672,861
Representing:						
At cost	91,034	—	47,700	495,900	7,657	642,291
At 2003 valuation	—	30,570	—	—	—	30,570
At 31st May, 2004	91,034	30,570	47,700	495,900	7,657	672,861
Accumulated depreciation and impairment losses						
At 1st June, 2003	26,397	—	25,607	365,964	4,200	422,168
Charge for the year	2,967	699	5,243	41,655	1,607	52,171
Disposals	—	—	(2,519)	(42,105)	(1,332)	(45,956)
Exchange adjustments	1,844	—	1,141	18,986	141	22,112
At 31st May, 2004	31,208	699	29,472	384,500	4,616	450,495
Net book value						
At 31st May, 2004	59,826	29,871	18,228	111,400	3,041	222,366
At 31st May, 2003	37,878	30,570	13,279	115,941	4,232	201,900

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, 2004 would have been approximately \$30,609,000 (2003: \$31,494,000).

At 31st May, 2004, the aggregate property revaluation reserve was approximately \$2,017,000 (2003: \$2,017,000).

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

	2004	2003
	\$'000	\$'000
In Hong Kong, held on:		
Leases of over 50 years	1,273	1,300
Leases of between 10 to 50 years	28,598	29,270
Outside Hong Kong, held on:		
Freehold	59,826	37,878
	89,697	68,448

- (c) The net book value of furniture and equipment and motor vehicles held under finance leases at 31st May, 2004 amounted to approximately \$1,386,000 (2003: \$163,000) and \$149,000 (2003: \$200,000) respectively.
- (d) At 31st May, 2004, certain land and buildings with an aggregate net book value of approximately \$38,478,000 (2003: \$27,799,000) were pledged as security 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	Development costs	Know-how	Goodwill	Negative goodwill	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost or valuation						
At 1st June, 2003	478,908	45,627	28,481	1,696	—	554,712
Acquisition of a subsidiary (a)	—	—	—	—	(43,226)	(43,226)
Acquisition of businesses	454	—	—	128,219	—	128,673
Additions	45,866	2,692	—	—	—	48,558
Disposals	(75,000)	(139)	—	—	—	(75,139)
Write-off	(11,619)	(1,488)	—	—	—	(13,107)
Exchange adjustments	2,763	1,992	349	4,011	—	9,115
At 31st May, 2004	441,372	48,684	28,830	133,926	(43,226)	609,586
Accumulated amortisation						
At 1st June, 2003	114,786	23,471	7,895	155	—	146,307
Charge for the year	27,733	7,130	1,967	8,633	(2,413)	43,050
Disposals	(8,125)	—	—	—	—	(8,125)
Write-off	(11,619)	(1,488)	—	—	—	(13,107)
Exchange adjustments	1,354	1,348	20	268	—	2,990
At 31st May, 2004	124,129	30,461	9,882	9,056	(2,413)	171,115
Net book value						
At 31st May, 2004	317,243	18,223	18,948	124,870	(40,813)	438,471
At 31st May, 2003	364,122	22,156	20,586	1,541	—	408,405

Notes:

- (a) Negative goodwill is released to income over a period of approximately 9 years, being the weighted average useful life of the non-monetary assets of a subsidiary, Sioux GmbH acquired by the Group during the year.
- (b) The net book value of a software system amounting to approximately \$42,291,000 (2003: Nil) included under intangible assets was held under finance leases at 31st May, 2004.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. DEFERRED TAX ASSETS/(LIABILITIES)

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

	Group	
	2004	2003
	\$'000	\$'000
Beginning of year	72,574	54,789
Exchange adjustments	144	16,476
Reversal of deferred tax liabilities	2,165	1,309
Recognised during the year	26,038	—
End of year	100,921	72,574

Provided for in respect of:

Group

	Accelerated	Deferred	Tax losses	Unrealised	Total
	depreciation		carried	profit in	
	allowances	income	forward	inventories of	
	\$'000	\$'000	\$'000	subsidiaries	\$'000
Balance at					
1st June, 2002	(4,543)	(2,668)	62,000	—	54,789
(Charge)/Credit to the					
profit and loss account					
for the year	1,355	(46)	—	—	1,309
Exchange adjustments	—	476	16,000	—	16,476
Balance at					
31st May, 2003 and					
1st June, 2003	(3,188)	(2,238)	78,000	—	72,574
(Charge)/Credit to the					
profit and loss account					
for the year	(250)	2,415	3,930	22,108	28,203
Exchange adjustments	—	94	50	—	144
Balance at					
31st May, 2004	(3,438)	271	81,980	22,108	100,921

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

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

- (b) Deferred taxation is calculated in full on temporary differences under the balance sheet liability method using a principal taxation rate of 17.5% (2003: 17.5%). Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income tax relates to the same fiscal authority. The following amounts are shown in the balance sheet:

	Group	
	2004	2003
	\$'000	\$'000
Deferred tax liabilities	(3,167)	(5,426)
Deferred tax assets	104,088	78,000
	100,921	72,574

- (c) At 31st May, 2004, the Group has unused tax losses of approximately \$843,602,000 (2003: \$827,849,000) available for offset against future profits. Deferred tax asset has been recognised in respect of approximately \$386,370,000 (2003: \$380,488,000) of such losses. No deferred tax asset has been recognised in respect of the remaining \$457,232,000 (2003: \$447,361,000) due to the unpredictability of future profit streams. The unrecognised tax losses will expire through 5 years to indefinitely.

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:

	2004	2003
	\$'000	\$'000
Shares listed in Hong Kong, at cost	97,548	97,548
Unlisted shares, at cost	328,239	328,239
Less: Accumulated impairment losses	(29,000)	(14,000)
	396,787	411,787
Market value of shares listed in Hong Kong	232,128	301,929

Notes:

- (a) Amounts due from/(to) subsidiaries were unsecured and repayable on demand. Except for an amount of approximately \$323,642,000 (2003: \$288,586,000) due from a subsidiary which bore interest at commercial lending rate, the remaining balances were non-interest bearing.
- (b) At 31st May, 2004, 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, 2004, the Company provided corporate guarantees to commercial banks and other institutions of approximately \$2,090,423,000 (2003: \$1,719,442,000) to secure banking and other facilities of certain subsidiaries (*Notes 31 and 32(a)*).
- (d) The underlying value of interests in subsidiaries was, in the opinion of the Directors, not less than the carrying value at 31st May, 2004.

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, 2004:

Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
# Abel & Zimmermann GmbH & Co KG	Germany	EUR511,292	—	61.43	Manufacturing and distribution of jewellery
Bartelli (Holdings) Limited	British Virgin Islands	US\$1	—	100	Licensing of leather trademark
Bartelli Leather Products Limited	Hong Kong	\$10,000	—	100	Manufacturing and distribution of leather products
# @ Bartelli Leather Products (Shenzhen) Co. Ltd. (i)	The People's Republic of China ("PRC")	US\$500,000	—	100	Manufacturing of leather products
# @ Calibre Jewellery (Shenzhen) Co. Ltd.	The PRC	US\$600,000	—	72.27	Manufacturing of jewellery
Centreline Group Limited	British Virgin Islands	US\$1	—	100	Investment holding and licensing of trademarks
# Chromachron A.G.	Switzerland	CHF300,000	—	100	Design, assembly and distribution of watches
# Comtesse Accessoires GmbH & Co.	Germany	EUR2,000,000	—	100	Manufacturing and distribution of leather products
# Comtesse GmbH	Germany	EUR520,000	—	100	Manufacturing and distribution of leather products

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. INTERESTS IN SUBSIDIARIES (Cont'd)

Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
Eco-Haru (Far East) Limited	Hong Kong	\$500,000	—	100	Distribution of timepieces, jewellery and leather and lifestyle products
Eco-Haru Mfr. Holdings Limited	British Virgin Islands	US\$1	100	—	Investment holding
Eco-Haru Property Investments Limited	Hong Kong	\$2	—	100	Property holding
Eco Swiss China Time Limited	Hong Kong	\$26,000,000	100	—	Procurement
Egana Asial Company Limited	Samoa/The PRC	\$1,000	—	60	Assembly of watches
Egana.Com Inc.	British Virgin Islands	US\$100	—	100	Operation of e-business
# Egana Deutschland GmbH	Germany	EUR5,113,430	—	100	Design and distribution of watches
Egana Far East Procurement Services (Holdings) Limited	Cayman Islands	\$15,000,000	100	—	Procurement
Egana Finance Limited	Hong Kong	\$2	100	—	Group treasury
# EganaGoldpfeil Benelux Jewel B.V. (ii)	The Netherlands	EUR18,000	—	72.27	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/ registered capital	Percentage of nominal value of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
# EganaGoldpfeil Benelux Time B.V. (ii)	The Netherlands	EUR18,000	—	100	Distribution of watches
# EganaGoldpfeil Europe (Holdings) GmbH	Germany	EUR2,600,000	100	—	Investment holding
# EganaGoldpfeil Italia s.r.l.	Italy	EUR25,823	—	100	Distribution of watches
# EganaGoldpfeil (Switzerland) Limited (Formerly known as Egana Suisse SA)	Switzerland	CHF1,000,000	—	100	Design, manufacturing and distribution of watches
Egana-Haru Mfr. Corp. Limited	Hong Kong	\$2	—	100	Design, assembly, distribution and licensee of watches
# Egana India Private Limited	India	US\$500,000	—	90	Distribution of watches and jewellery
Egana Investments (Pacific) Limited	Cook Islands	US\$1	—	72.27	Investment holding and licensing operation
* Egana Jewellery & Pearls Limited (“EJPL”)	Cayman Islands/ Hong Kong	\$158,735,015	51.13	21.14	Investment holding
# Egana Jewelry & Pearls (America) Corp.	The United States of America	US\$881,000	—	72.27	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/ registered capital	Percentage of nominal value of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
# Egana Juwelen & Perlen Handels GmbH	Austria	EUR36,336	—	72.27	Distribution of jewellery
Egana Marketing (Suisse) Inc.	Cook Islands	US\$1	—	72.27	Provision of marketing and consultancy services
# Egana Schmuck und Perlen GmbH	Germany	EUR25,565	—	72.27	Design and distribution of jewellery
# Egana of Switzerland (America) Corp.	The United States of America	US\$16,517,458	100	—	Design, distribution and licensee of watches
Egana of Switzerland (Far East) Limited	Hong Kong	\$11,500,000	—	100	Design, assembly and distribution of watches
# Egana Uhrenvertriebs GmbH	Austria	EUR36,000	—	100	Distribution of watches
# Eurochron GmbH	Germany	EUR2,556,459	—	100	Design, manufacturing and distribution of clocks
# European Technology & Logistic Center GmbH	Germany	EUR500,000	—	100	Technology and logistic center
Everstone Limited	Hong Kong/ The PRC	\$100	—	72.27	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

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. INTERESTS IN SUBSIDIARIES (Cont'd)

Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
# Gold Arrow, Inc.	The United States of America	US\$2,089,111	—	100	Investment holding
# Goldpfeil GmbH (Formerly known as 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
# Goldpfeil Genève S.A.	Switzerland	CHF100,000	—	100	Distribution of watches
# Guthmann & Wittenauer Schmuck GmbH	Germany	EUR1,500,000	—	72.27	Manufacturing and distribution of jewellery
# Haru Holding & Management GmbH	Germany	EUR2,300,850	—	100	Investment holding
# Haru Japan Corporation, Inc.	Japan	JP¥30,000,000	—	100	Distribution of timepieces, jewellery, and sourcing agent for pearls
# Haru-Kuraray GmbH	Germany	EUR1,022,600	—	55	Distribution of man-made leather

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. INTERESTS IN SUBSIDIARIES (Cont'd)

Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
# Jacquelin Designs Enterprises, Inc.	The United States of America	—	—	72.27	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	British Virgin Islands	US\$1	—	100	Investment holding
# Junghans Uhren GmbH	Germany	EUR5,112,919	—	100	Manufacturing and distribution of watches
Kai-Yin Lo Limited	Hong Kong	\$2,600,000	—	100	Designs, manufacturing and retailing of jewellery
# Keimothai Limited	Thailand	Baht81,000,000	—	72.27	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	—	72.27	Design, manufacturing, distribution and licensee of jewellery
P.C. International Marketing Limited	British Virgin Islands/France	US\$1	100	—	Licensing of watches and jewellery trademarks/brandnames

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. INTERESTS IN SUBSIDIARIES (Cont'd)

Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
Pioneer Ventures Limited	Hong Kong	\$100	—	100	General trading and quality inspection
# Rebner GmbH	Germany	EUR25,564	—	61.43	Investment holding
# Sioux GmbH (iii)	Germany	EUR7,669,000	—	100	Manufacturing and distribution of footwear
Time Success Industrial Limited	Hong Kong	\$2	—	72.27	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:

- (i) The Group set up a new subsidiary, Bartelli Leather Products (Shenzhen) Co. Ltd. in November, 2003.
- (ii) The Group set up two subsidiaries in the Netherlands, EganaGoldpfeil Benelux Time B.V. and EganaGoldpfeil Benelux Jewel B.V. in June and October, 2003 respectively.
- (iii) The Group acquired a German footwear manufacturing group, Sioux GmbH and its subsidiaries in November, 2003.
- (iv) The above table listed the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would in the opinion of the Directors, result in particulars of excessive length.

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

Audited by certified public accountants other than RSM Nelson Wheeler

@ 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

	Group	
	2004	2003
	\$'000	\$'000
Share of net assets/(liabilities)		
Company listed in Hong Kong	80,219	93,279
Unlisted companies	(12,461)	(955)
	67,758	92,324
Negative goodwill	(1,386)	(5,935)
Goodwill	64,269	9,200
	130,641	95,589
The Group's share of the market value of the company listed in Hong Kong	54,433	38,751

The underlying value of interests in associated companies was, in the opinion of the Directors, not less than the carrying value at 31st May, 2004.

The following is a list of the principal associated companies at 31st May, 2004:

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
JOOP! GmbH ("JOOP!")	Germany	3 shares of EUR120,000 each	—	33.33(a)	Retail and trademark licensing
Tonic Industries Holdings Limited ("Tonic") *	Cayman Islands/ Hong Kong	Ordinary shares of \$0.1 each	—	20.40(b)	Design, manufacturing and marketing of audio, video and home appliance products

* Listed on the Stock Exchange

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

17. INTERESTS IN ASSOCIATED COMPANIES (Cont'd)

Notes:

- (a) In June 2003, the Group acquired 33.33% interest in an associated company at a consideration of approximately \$53,055,000 and the corresponding goodwill of approximately \$67,652,000 was recognised and amortised over the estimated useful life of 20 years on a straight line basis.
- (b) In August 2003, the Group disposed of certain equity interest in Tonic for a consideration of approximately \$14,480,000, resulting in a gain of approximately \$730,000 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, 2004 and for the year then ended is set out below:

	31st March, 2004 \$'000 (Audited)#	31st March, 2003 \$'000 (Audited)# (Restated)
Balance sheet		
Non-current assets	592,960	514,605
Current assets	869,956	609,170
Total assets	1,462,916	1,123,775
Capital and reserves	396,539	386,681
Non-current liabilities	266,878	87,244
Current liabilities	799,499	649,850
Total equity and liabilities	1,462,916	1,123,775
Profit and loss account		
Turnover	2,074,140	2,680,277
Gross profit	104,516	148,625
Operating profit	29,109	66,197
Profit before taxation	19,965	53,495
Net profit for the year	25,599	43,301

Audited by certified public accountants other than RSM Nelson Wheeler

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

18. INVESTMENTS IN NON-TRADING SECURITIES

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Equity securities:				
Strategic investments (a)	278,892	241,193	43,199	43,199
Others (b)	53,611	37,824	7,362	521
	332,503	279,017	50,561	43,720

Notes:

(a) Strategic investments:

	Group	
	2004 \$'000	2003 \$'000
Unlisted, at fair value		
- Investment in third party private companies/ company (i)	87,792	37,055
- Private closed-end funds (ii)	191,100	204,138
	278,892	241,193

	Company	
	2004 \$'000	2003 \$'000
Unlisted, at fair value	43,199	43,199

(i) At 1st June, 2003, the Group had strategic investment in a third party private company with a view to enhancing the Group's distribution network in Asia. Its principal activities are investment holding, trading of consumer products and rendering of marketing promotion service.

During the year, the Group entered into another strategic investment. Its principal activities are investment holding, distribution and trading of fashion accessory products.

As at 31st May, 2004, the investment in the private companies was stated at fair value as determined by the Directors and a revaluation surplus of approximately \$12,688,000 (2003: \$12,985,000) was recorded in the revaluation reserve.

In the opinion of the Directors, there was no impairment in the carrying value of these non-trading securities at 31st May, 2004.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

- (ii) At 1st June, 2003, 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 the Greater China markets. The five funds are under the management of a third party Hong Kong listed investment banking group (the "LISTED CO").

During the year, one of the five private closed-end funds was dissolved and the Group received a refund of approximately \$28,774,000. The revaluation deficit of approximately \$3,153,000 of the fund was transferred to the profit and loss account and resulting in a loss on dissolution of approximately \$2,625,000.

In addition, the Group has partially disposed of its interest in one of the remaining 4 private closed-end funds with a consideration of approximately \$23,181,000. The revaluation deficit of approximately \$384,000 of the fund was transferred to the profit and loss account and resulting in a gain on disposal of approximately \$881,000.

At 31st May, 2004, the investment in private closed-end funds was stated at fair value which was determined by the Directors and a revaluation deficit of approximately \$5,684,000 (2003: \$9,221,000) was recorded in the revaluation reserve.

In the opinion of the Directors, there was no impairment in the carrying value of the funds at 31st May, 2004.

- (b) Others:

	Group	
	2004 \$'000	2003 \$'000
Listed in Hong Kong, at quoted market price	53,147	37,360
Unlisted, at fair value	464	464
	53,611	37,824

	Company	
	2004 \$'000	2003 \$'000
Listed in Hong Kong, at quoted market price	7,047	206
Unlisted, at fair value	315	315
	7,362	521

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. INVENTORIES

	Group	
	2004	2003
	\$'000	\$'000
Raw materials	283,629	274,250
Work-in-progress	96,342	69,485
Finished goods	604,472	509,158
	984,443	852,893
Less: Provision for inventory	(89,157)	(118,789)
	895,286	734,104

At 31st May, 2003 and 2004, no inventory was carried at net realisable value.

At 31st May, 2004, the carrying amount of inventories that was pledged as security for banking facilities granted to a subsidiary of the Group amounted to approximately \$48,782,000 (2003: \$44,417,000) (*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, 2004 after provision for bad and doubtful debts was as follows:

	Group	
	2004	2003
	\$'000	\$'000
Due		
In current month	730,732	543,511
Between one to two months	36,663	24,096
Between two to three months	32,926	10,871
Between three to four months	25,410	9,655
Over four months	28,546	34,756
	854,277	622,889

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

21. SHORT-TERM INVESTMENTS

	Group	
	2004	2003
	\$'000	\$'000
Equity-linked notes (a)	118,810	7,038
Promissory notes with maturity more than three months and less than one year	—	60,520
Short-term deposits	—	79,198
Trading securities listed outside Hong Kong (b)	7,739	7,374
	126,549	154,130

Notes:

- (a) At 31st May, 2004, the Group had investments in certain 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)(ii) has a beneficial interest.

The ELNs were unsecured, bore interest at a range of 1.5% to 3.0% per annum and would be redeemable by the Note Issuer on maturity dates, which were three to six months after the issuance dates.

The ELNs or any part thereof are convertible into shares of companies listed on the Stock Exchange at a specified conversion price (subject to adjustments) at the option of the Group. The Group also has the right to demand the Note Issuer to redeem any notes not previously converted at redemption amounts equal to 102.25% to 105% of the principal amounts upon maturity.

- (b) At 31st May, 2004, trading securities of approximately \$7,438,000 was pledged to secure for certain banking facilities of a subsidiary.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

22. ACCOUNTS PAYABLE, ACCRUALS AND OTHER PAYABLES

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Accounts payable	250,536	231,467	—	—
Accruals and other payables	334,308	345,371	5,092	10,236
	584,844	576,838	5,092	10,236

At 31st May, 2004, the aging analysis of the accounts payable was as follows:

	Group	
	2004 \$'000	2003 \$'000
Due		
In current month	199,564	196,720
Between one to two months	34,707	16,246
Between two to three months	4,900	5,364
Between three to four months	4,910	2,455
Over four months	6,455	10,682
	250,536	231,467

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

23. PROVISIONS

Group	Warranty (a)	Restructuring (b)	Others (c)	Total
	\$'000	\$'000	\$'000	\$'000
At 1st June, 2003	31,065	7,361	3,455	41,881
Additional provisions	4,839	5,099	—	9,938
Arising from the acquisition of				
a subsidiary	1,747	1,203	—	2,950
Less: Amounts utilised	(2,678)	(7,464)	—	(10,142)
Less: Unused amounts reversed	(17,048)	(3,134)	—	(20,182)
Exchange adjustments	1,229	155	139	1,523
At 31st May, 2004	19,154	3,220	3,594	25,968

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 2005.
- (c) Other provision: The provision at 31st May, 2004 was mainly related to the environmental risks of tearing down certain old buildings of an overseas subsidiary.

24. SHORT-TERM BANK BORROWINGS

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Bank loans and overdrafts	494,420	526,994	—	—
Trust receipts and import loans	145,120	97,155	—	—
	639,540	624,149	—	—

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

25. LONG-TERM LIABILITIES

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Long-term bank borrowings (a)	493,573	349,046	284,000	228,500
Other long-term loans (b)	67,171	20,154	—	—
Obligations under finance leases (c)	28,351	422	—	—
Loan from a related party (d)	—	9,066	—	—
	589,095	378,688	284,000	228,500
Current portion of long-term liabilities	(179,748)	(194,524)	(46,000)	(149,500)
	409,347	184,164	238,000	79,000

Notes:

(a) Long-term bank borrowings:

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Repayable				
- within one year				
- secured	22,396	5,708	—	—
- unsecured	95,197	182,150	46,000	149,500
- in the second year				
- secured	15,607	1,998	—	—
- unsecured	108,551	111,436	70,000	79,000
- in the third to fifth year				
- secured	7,598	15,677	—	—
- unsecured	243,491	9,996	168,000	—
- after the fifth year				
- secured	733	22,005	—	—
- unsecured	—	76	—	—
	493,573	349,046	284,000	228,500
Current portion included in current liabilities	(117,593)	(187,858)	(46,000)	(149,500)
	375,980	161,188	238,000	79,000

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

25. LONG-TERM LIABILITIES (Cont'd)

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

- (i) On 25th September, 2003, the Company entered into a syndicated loan agreement (the "Loan Agreement A") with banks for a four-year transferable loan facility amounting to \$240 million.

The syndicated loan carries interest at commercial lending rates and is guaranteed by certain subsidiaries of the Company. The syndicated loan will be repaid by 11 successive quarterly instalments and the first instalment will be payable in March 2005.

- (ii) In March 2004, the Group also entered into another syndicated loan agreement (the "Loan Agreement B") through a subsidiary with banks for a three-year transferable loan facility amounting to \$120 million. The syndicated loan carries interest at commercial lending rates and is guaranteed by certain subsidiaries. The syndicated loan will be repaid by three semi-annual instalments and the first instalment will be payable in March 2006.

Pursuant to the Loan Agreements A & B, the Group is required to comply with certain financial and general covenants. As of the date of the approval of accounts, the Directors believe that the Group has complied in all material respects with all the financial and general covenants as required by the Loan Agreements A & B.

At 31st May, 2004, long-term bank borrowings not wholly repayable within five years of approximately \$9,765,000 (2003: \$32,100,000) were repayable by instalments.

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

	Group	
	2004	2003
	\$'000	\$'000
Repayable		
- within one year, unsecured	42,720	333
- in the second year, unsecured	5,087	765
- in the third to fifth year, unsecured	1,045	1,470
- after the fifth year, unsecured	18,319	17,586
	67,171	20,154
Current portion included in current liabilities	(42,720)	(333)
	24,451	19,821

At 31st May, 2004, other loans not wholly repayable within five years of approximately \$19,969,000 (2003: \$19,567,000) were repayable by instalments.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

25. LONG-TERM LIABILITIES (Cont'd)

(c) Obligations under finance lease liabilities:

	Group	
	2004	2003
	\$'000	\$'000
Lease payments payable		
- within one year	20,421	317
- in the second year	8,756	120
- in the third to fifth year	276	22
	29,453	459
Future finance charges on finance leases	(1,102)	(37)
Present value of finance lease liabilities	28,351	422

The present value of finance lease liabilities was as follows:

	Group	
	2004	2003
	\$'000	\$'000
Repayable		
- within one year	19,435	289
- in the second year	8,646	111
- in the third to fifth year	270	22
Present value of finance lease liabilities	28,351	422
Current portion included in current liabilities	(19,435)	(289)
	8,916	133

(d) Loan from a related party:

	Group	
	2004	2003
	\$'000	\$'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

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

26. CONVERTIBLE BONDS/DEBENTURES

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Beginning of year	78,000	13,260	78,000	13,260
Issued during the year				
- Company (a)(i)(ii)	117,000	78,000	117,000	78,000
- Subsidiary (b)	78,000	—	—	—
Converted to ordinary shares				
- Company (a)(iii)	(35,087)	(13,260)	(35,087)	(13,260)
- Subsidiary (b)	(11,700)	—	—	—
Repayment of convertible bonds				
- Company	(13)	—	(13)	—
End of year	226,200	78,000	159,900	78,000
Current portion included in current liabilities	—	—	—	—
	226,200	78,000	159,900	78,000

(a) Convertible bonds - Company

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

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

Upon the issuance of the Tranche 1 Bonds A, the Company also granted to the third party the following:

- An additional subscription right exercisable at any time commencing on the First Closing Date until the First Maturity Date, to subscribe for approximately 9 million ordinary shares in the Company at a subscription price of \$1.6184 per share.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

26. CONVERTIBLE BONDS/DEBENTURES *(Cont'd)*

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

(i) *(Cont'd)*

— An option exercisable from the First Closing Date until the First Maturity Date, to require the Company to issue additional Tranche 1 Bonds A of up to US\$5 million (equivalent to approximately \$39 million). On 15th January, 2004, the third party exercised this option, the Company then issued additional convertible bonds (the “Additional Tranche 1 Bonds A”) of US\$5 million (equivalent to approximately \$39 million) to the third party. The Additional Tranche 1 Bonds A are of the same terms as the Tranche 1 Bonds A.

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

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

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

(iii) During the year, convertible bonds amounting to US\$4.5 million (equivalent to approximately \$35.1 million) were converted into 23,827,000 ordinary shares in the Company.

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

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

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

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

26. CONVERTIBLE BONDS/DEBENTURES *(Cont'd)*

(b) Convertible bonds - Subsidiary

On 10th February, 2004, EJPL, a listed subsidiary of the Company entered into a subscription agreement (the "Subscription Agreement C") with a third party whereby EJPL will issue convertible bonds up to a maximum of US\$45 million (equivalent to approximately \$351 million). These bonds bear interest at 1.5% per annum and will mature on 31st March, 2009 (the "Maturity Date").

On 26th February, 2004 (the "Closing Date"), EJPL issued convertible bonds (the "Tranche 1 Bonds B") of US\$10 million (equivalent to approximately \$78 million) to the third party. The Tranche 1 Bonds B may be converted into EJPL's shares at the conversion price during the conversion period as stated in the Subscription Agreement C. All outstanding Tranche 1 Bonds B will be redeemed at 100% of its principal amount on maturity.

Upon the issuance of the Tranche 1 Bonds B, EJPL also granted to the third party the following:

- Additional subscription rights exercisable at any time commencing on the Closing Date until the Maturity Date, to subscribe for approximately 5.5 million ordinary shares in EJPL at a subscription price of \$2.5 per share.
- An option exercisable during the period from the 45th day to 150th day after the Closing Date, to require EJPL to issue additional Tranche 1 Bonds B of up to US\$5 million (equivalent to approximately \$39 million). Subsequent to the balance sheet date, this option expired and no additional Tranche 1 Bonds B had been issued by EJPL.

Details of the Subscription Agreement C were disclosed in the EJPL's Announcement dated 10th February, 2004.

During the year, the Tranche 1 Bonds B amounting to US\$1.5 million (equivalent to approximately \$11.7 million) were converted into EJPL's ordinary shares.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

27. PENSIONS AND OTHER POST RETIREMENT OBLIGATIONS

	Group	
	2004	2003
	\$'000	\$'000
Obligations on:		
- pensions - defined contribution plan (a)	—	—
- pensions - defined benefits plans (b)	216,755	137,527
	216,755	137,527

Notes:

(a) Pensions - defined contribution plan

The Group has participated in the defined Mandatory Provident Fund scheme in Hong Kong since 1 December 2000 and made monthly contributions to the scheme based on 5%-7% of the employees' basic salaries. The contributions are subject to a maximum of \$1,000 per employee per month and thereafter contributions are voluntary. During the year ended 31st May, 2004, the Group's employer's contribution to the scheme was approximately \$3,060,000 (2003: \$2,438,000). The assets of the scheme are held separately from those of the Group and are managed by independent professional fund managers.

Forfeited contributions totalling \$299,000 (2003: \$1,636,000) were utilised during the year.

(b) Pensions - defined benefits plans

Employees of certain overseas subsidiaries are members of defined benefits plans maintained by the Group. There is no requirement for these employees to make periodic contributions to these plans. At 31st May, 2004, 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, 2004 by qualified actuaries, Signal Iduna Lebensversicherung AG, M&L Gesellschaft für Versicherungsmathematik mbH, Dr. Dr. Heissmann GmbH, HÖFER Vorsorge-Management and Allianz Lebensversicherungs-AG using the projected unit credit method.

The main actuarial assumptions were as follows:

Discount rate	5%-6%
Expected rate of future salary increases	2%
Expected future pension increases	1%-2%

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

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

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

	Group	
	2004	2003
	\$'000	\$'000
Present value of unfunded obligations	221,337	137,527
Unrecognised actuarial losses	(4,582)	—
Liability in the balance sheet	216,755	137,527

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

	2004	2003
	\$'000	\$'000
Current service cost	3,230	1,337
Interest cost	9,963	6,499
Net actuarial losses recognised	1,205	34
Losses on curtailment	—	(117)
Total included in staff costs (Note 11)	14,398	7,753

All the charges were included in administrative expenses.

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

	2004	2003
	\$'000	\$'000
Beginning of year	137,527	105,790
Exchange adjustments	7,470	27,979
Liabilities acquired on acquisition of a subsidiary	69,109	4,111
Expenses recognised in the profit and loss account	14,398	7,753
Benefits paid	(11,749)	(8,106)
End of year	216,755	137,527
Current portion included in current liabilities	(14,810)	(10,503)
	201,945	127,024

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. SHARE CAPITAL

Share capital comprised:

	2004	2003	2004	2003
	Number of ordinary shares		\$'000	\$'000
Authorised:				
Beginning of year	2,000,000,000	20,000,000,000	2,000,000	2,000,000
Effect of Share Consolidation	—	(18,000,000,000)	—	—
End of year	2,000,000,000	2,000,000,000	2,000,000	2,000,000
Issued and fully paid:				
Ordinary shares:				
Beginning of year	1,131,976,762	11,215,674,898	1,131,976	1,121,567
Effect of Share Consolidation	—	(10,094,107,409)	—	—
Issued upon conversion of convertible bonds/debentures (a)	23,827,000	10,409,273	23,827	10,409
Issue of shares pursuant to scrip dividend scheme for the 2003 final dividend (b)	16,026,289	—	16,026	—
End of year	1,171,830,051	1,131,976,762	1,171,829	1,131,976

Notes:

- (a) During the year, the Company issued a total of 23,827,000 new ordinary shares of \$1 each upon the conversion of convertible bonds of \$35,100,000 as set out in note 26.
- (b) Pursuant to a scrip dividend scheme approved by the shareholders at an annual general meeting on 20th November, 2003, the Company issued and allotted a total of 16,026,289 new ordinary shares of \$1 each in the Company at the value of \$1.46 per share to certain shareholders who had elected to receive the new ordinary shares instead of cash payment for the 2003 final dividend on 5th December, 2003. These shares rank pari passu with the existing issued shares of the Company.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28.SHARE CAPITAL *(Cont'd)*

Share options

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

Notes:

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

	Number of share options	
	2004 '000	2003 '000
Beginning of year	45,382	45,598
Lapsed on expiry	(153)	(216)
End of year	45,229	45,382

No share options were granted (2003: Nil), exercised (2003: Nil) or cancelled (2003: Nil) during the year.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. SHARE CAPITAL (Cont'd)

Share options (Cont'd)

(b) At 31st May, 2004, details of outstanding share options were as follows:

Date granted	Expiry date	2004			2003		
		Exercise price \$	No. of options	No. of options vested	Exercise price \$	No. of options	No. of options vested
Directors							
06/04/1994	06/04/2004	—	—	—	1.28	58,000	—
23/03/1997	23/03/2007	3.45	144,800#	—	—	—	—
09/01/2000	09/01/2010	2.11	12,500,000	—	2.11	12,500,000	10,000,000
17/01/2000	17/01/2010	2.11	500,000	—	2.11	500,000	400,000
			13,144,800	—		13,058,000	10,400,000
Employees under continuous contracts (excluding Directors)							
06/04/1994 to 28/01/1997	06/04/2004 to 28/01/2007	1.28	99,000	—	1.28	108,000	—
15/03/1997 to 27/09/1997	15/03/2007 to 27/09/2007	3.45	975,400#	—	3.45	1,206,200	—
07/01/2000 to 25/02/2000	07/01/2007 to 25/02/2010	2.11	31,010,000	—	2.11	31,010,000	24,804,000
			32,084,400	—		32,324,200	24,804,000
			45,229,200	—		45,382,200	35,204,000

On 20th November, 2003, Mr. Ho Yin Chik was appointed as a Director of the Company and therefore his share options of 144,800 shares had been reclassified from the category of "Employees under continuous contracts (excluding Directors)" to "Directors".

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

29. RESERVES

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

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

29. RESERVES (Cont'd)

Group (Cont'd)	Year ended 31st May, 2003								
	Share	Exchange	Retained	Revaluation	Capital		Legal	Other	Total
	premium	translation	profits	reserve	redemption	Goodwill	reserve	reserve	
account	reserve	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Beginning of year	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 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)

Company

Year ended 31st May, 2004

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

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

29. RESERVES (Cont'd)

Company (Cont'd)

	Year ended 31st May, 2003					Total \$'000
	Share	Retained	Revaluation	Capital	Other	
	premium			redemption		
	account	profits	reserve	reserve	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)

30. CONSOLIDATED CASH FLOW STATEMENT

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

	2004	2003
	\$'000	\$'000
Profit before share of profit/(loss) of associated companies	136,807	114,351
Depreciation of fixed assets	52,171	45,009
Loss on revaluation of fixed assets	—	42
Impairment of fixed assets	—	63
(Gain)/Loss on disposal of fixed assets	(8,675)	753
Loss on disposal of intangible assets	127	—
Amortisation of intangible assets, net	43,050	34,712
Gain on disposal of a subsidiary	(8)	—
Loss on deemed disposal of interest in a subsidiary	3,429	—
Franchising income	(32,445)	—
Gain on partial disposal of interest in an associated company	(730)	—
Amortisation of goodwill/negative goodwill arising on acquisition of associated companies, net	7,880	8,875
(Gain)/Loss on disposal of interest in an associated company	(5,198)	1,363
Dividend income	(4,576)	(454)
Gain on revaluation of trading securities	(65)	(144)
Gain on disposal of investments in non-trading securities, net	(881)	(13,774)
Redemption premium received on maturity of equity-linked notes	(5,896)	(8,360)
Interest income	(34,303)	(48,240)
Interest expense	66,506	67,731
Loss on dissolution of non-trading securities	2,625	—
Provision for inventory	—	10,940
Write-back of provision for inventory	(66,847)	(3,845)
Bad debt expense	19,955	9,417
Write-back of provision for bad debts	(899)	(1,595)
Operating profit before working capital changes	172,027	216,844
Decrease/(Increase) in inventories	47,293	(42,405)
Increase in accounts receivable	(214,624)	(321,974)
Decrease/(Increase) in deposits, prepayments and other receivables	127,151	(146,618)
Decrease in due from associated companies	4,934	66,889
Decrease in accounts payable, accruals and other payables	(70,599)	(14,121)
Decrease in provisions	(20,387)	(12,672)
Increase/(Decrease) in bills payable	34,704	(11,009)
Increase in provision for pensions and other post retirement obligations	2,648	27,626
(Decrease)/Increase in due to associated companies	(2,221)	3,421
(Decrease)/Increase in due to a Director	(43)	35
Exchange adjustments	(10,861)	—
Net cash inflow/(outflow) generated from operations	70,022	(233,984)

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, 2004										2003 Total \$'000			
	Share capital		Short-term bank		Long-term bank		Other long-term	Loan from a related party	Finance leases			Convertible bonds	Minority interests	Total
	(including share premium)	bank borrowings	Dividend payable	bank borrowings	long-term loans			obligations						
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		\$'000	\$'000	\$'000
Beginning of year	1,459,318	624,149	—	349,046	20,154	9,066	422	78,000	129,854	2,670,009	2,595,137			
Re-allocation	—	—	—	—	9,066	(9,066)	—	—	—	—	—			
(Repayment of)/proceeds from borrowings, net	—	(13,022)	—	138,598	20,734	—	(12,453)	(13)	—	133,844	(176,210)			
Conversion of convertible bonds	35,087	—	—	—	—	—	—	(46,787)	11,643	(57)	—			
Payment of expenses incurred for conversion of convertible bonds/debentures and issue of shares	(16)	—	—	—	—	—	—	—	—	(16)	(183)			
Shares issued under scrip dividend scheme	23,398	—	(23,398)	—	—	—	—	—	—	—	—			
Proceeds from issuance of convertible bonds	—	—	—	—	—	—	—	195,000	—	195,000	78,000			
Dividends paid	—	—	(34,139)	—	—	—	—	—	—	(34,139)	(11,320)			
Acquisition of a subsidiary	—	14,101	—	603	15,977	—	—	—	—	30,681	34,786			
Dividends paid to minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	(8,311)	(8,311)	(5,245)			
Dividend declared	—	—	57,537	—	—	—	—	—	—	57,537	11,320			
Share of profit by minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	15,620	15,620	17,842			
Share of revaluation deficit of non-trading securities and exchange translation reserve by minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	1,198	1,198	2,595			
Inception of finance leases	—	—	—	—	—	—	39,550	—	—	39,550	—			
Exchange adjustments	—	14,312	—	5,326	1,240	—	832	—	—	21,710	123,287			
End of year	1,517,787	639,540	—	493,573	67,171	—	28,351	226,200	150,004	3,122,626	2,670,009			

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

30. CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(c) Acquisition of a subsidiary:

	2004	2003
	\$'000	\$'000
Net assets acquired:		
Fixed assets	31,998	1,535
Intangible assets	—	16,030
Investments in non-trading securities	—	18
Inventories	92,000	39,581
Accounts receivable	56,193	8,868
Deposits, prepayments and other receivables	20,483	2,295
Cash and bank balances	12,069	4,920
Accounts payable, accruals and other payables	(38,061)	(20,355)
Provisions	(2,950)	—
Short-term bank borrowings	(14,101)	(27,228)
Current portion of loan from a related party	—	(5,039)
Taxation payable	—	(108)
Long-term bank borrowings	(603)	—
Loan from a related party	—	(2,519)
Other loans	(15,977)	—
Pensions and other post retirement obligations	(69,109)	(4,111)
Share of net assets at date of acquisition	71,942	13,887
Negative goodwill	(43,226)	—
Consideration	28,716	13,887
Satisfied by:		
Cash	28,716	13,887

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(c) Acquisition of a subsidiary: *(Cont'd)*

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

	2004	2003
	\$'000	\$'000
Cash consideration	(28,716)	(6,054)
Cash and bank balances acquired	12,069	4,920
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(16,647)	(1,134)

(d) Acquisition of businesses:

	2004	2003
	\$'000	\$'000
Net assets acquired:		
Fixed assets	5,462	—
Intangible assets	454	—
Inventories	22,056	—
Accounts receivable	10,956	—
Deposits, prepayments and other receivables	4,222	—
Cash and bank balances	22	—
Accounts payable, accruals and other payables	(23,843)	—
Share of net assets at date of acquisition	19,329	—
Goodwill	128,219	—
Consideration	147,548	—
Satisfied by:		
Cash	22,404	—
Set off against accounts receivable	78,794	—
Set off against other receivable	46,350	—
	147,548	—

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

30. CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(d) Acquisition of businesses: (Cont'd)

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

	2004	2003
	\$'000	\$'000
Cash consideration	(22,404)	—
Cash and bank balances acquired	22	—
Net outflow of cash and cash equivalents in respect of the acquisition of businesses	(22,382)	—

(e) Major non-cash transaction:

Additions to fixed assets and intangible assets during the year amounting to approximately \$46,889,000 were financed by finance leases.

(f) Analysis of cash and cash equivalents:

	Group	
	2004	2003
	\$'000	\$'000
Cash and bank balances	202,881	142,231
Promissory notes with maturity within three months *	359,803	210,035
	562,684	352,266

* 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, 2004, all the above promissory notes receivable were due for repayment in the period from June to August 2004 of which approximately \$233,678,000 was rolled over upon maturity for another three months.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

31. CONTINGENT LIABILITIES

At 31st May, 2004, contingent liabilities not provided for by the Group and the Company were summarised below:

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Discounted bills with recourse	53,196	204,403	—	—
Guarantees given to financial and other institutions in respect of facilities granted to Group companies (<i>Note 16(c)</i>)	—	—	2,090,423	1,719,442
Guarantees given to landlords in respect of rental obligations of Group companies	114	56	—	—
Guarantees given to customs in respect of default in customs obligations of Group companies	656	278	—	—

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

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

32. BANKING FACILITIES

- (a) At 31st May, 2004, 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, 2004, certain land and buildings (*Note 13(d)*) and inventories (*Note 19*) were pledged as security for banking facilities granted to certain German subsidiaries of the Group.

33. COMMITMENTS

(a) Commitments under operating leases

At 31st May, 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases payable as follows:

	2004		2003	
	Leasehold land and buildings \$'000	Furniture and equipment \$'000	Leasehold land and buildings \$'000	Furniture and equipment \$'000
Payable:				
- Not later than one year	61,608	38,698	58,774	21,743
- Later than one year and not later than five years	181,078	23,108	177,936	37,032
- Later than five years	266,027	455	282,117	1,980
	508,713	62,261	518,827	60,755

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

33.COMMITMENTS (Cont'd)

(b) Commitments under license agreements

At 31st May, 2004, the Group had future aggregate minimum royalty payments under license agreements payable as follows:

	2004	2003
	\$'000	\$'000
Payable:		
- Not later than one year	40,150	37,813
- Later than one year and not later than five years	129,551	69,481
- Later than five years	27,885	—
	197,586	107,294

(c) Off-balance sheet financial instruments

- (i) During the year, the Group entered into forward foreign exchange and gold contracts in order to hedge against firmly committed commercial transactions. The contracts were arranged with commercial banks and other institutions. In addition, the Group has also bought and sold some currency options. The Group had, at 31st May, 2004, outstanding forward foreign exchange contracts to buy and sell currency with a notional principal value of approximately EUR Nil (2003: EUR2,750,000) and EUR2,190,000 (2003: EUR6,937,000) equivalent respectively, outstanding forward gold contracts to purchase gold with a notional principal value of approximately US\$7,086,000 (2003: Nil) equivalent, and written currency options (principally Euro Dollars) with a notional principal value of EUR71,600,000 (2003: EUR44,500,000), JPY118,640,000 (2003: Nil) and US\$2,000,000 (2003: Nil) equivalent. Such outstanding contracts were scheduled to settle or expire, through February 2005.
- (ii) At 31st May, 2004, the Group had outstanding interest rate swap contracts with a notional amount of approximately \$290 million (2003: \$230 million). Such outstanding contracts were scheduled to settle or expire, through March 2005.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

33.COMMITMENTS *(Cont'd)*

(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, 2004, total outstanding commitment amounted to approximately CHF25,950,000.

Save as disclosed above, neither the Group nor the Company had any significant commitments at 31st May, 2004.

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 \$7,403,000 (2003: \$7,344,000) (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. The Directors consider that the fees were paid according to prices and conditions similar to those offered by other external consultants of the Group.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

34. RELATED PARTY AND CONNECTED TRANSACTIONS

(a) Related party transactions (Cont'd)

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

	2004	2003
	\$'000	\$'000
Interest expense to Rossolini Limited	8	8
Management fee from Egana Information Technology Limited ("EIT")	120	240
Purchases from Tonic	44,530	86,782
Purchases from Kuraray Co. Limited and/or its subsidiaries ("Kuraray")	104,402	147,470
Sales to EIT	—	1
Sales to Dominique	7,162	5,742
Interest income from Dominique	111	—
Royalties to JOOP!	10,443	—
Interest income from Tonic	83	—

(b) Connected transactions

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

	2004	2003
	\$'000	\$'000
(i) Haru-Kuraray GmbH: Purchases from Kuraray ⁽¹⁾	74,461	125,423
(ii) Lorica Sud s.r.l.: Purchases from Kuraray ⁽²⁾	29,941	22,047

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(b) Connected transactions *(Cont'd)*

- (1) According to the Distribution Agreement entered into between Kuraray 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 and as amended on 24th February, 2003.

(c) At 31st May, 2004, the amounts due from/(to) associated companies were unsecured, non-interest bearing and repayable within one year except for an amount of approximately \$91,000 due to an associated company and an amount of approximately \$1,499,000 due from an associated company which bore interest at commercial lending rates.

(d) At 31st May, 2004, the amount due to a Director was unsecured, non-interest bearing and repayable within one year.

35. SUBSEQUENT EVENTS

- (a) In June 2004, the Group acquired a total of 10 shares, representing 10% equity interest in Junghans Asia (Holdings) Limited ("JAL"), a non-wholly owned subsidiary of the Group for a total consideration of \$86,000,000. As a result, JAL became a wholly-owned subsidiary of the Group.
- (b) Subsequent to 31st May, 2004, the Company issued and allotted shares to the bondholder as described in Note 26(a), resulting in an increase in shareholders' funds of approximately \$6,239,000. The Group also issued and allotted shares to the bondholder as described in Note 26(b), resulting in an increase in shareholders' funds of the subsidiary of approximately \$15,600,000.

36. APPROVAL OF THE ACCOUNTS

The accounts were approved by the Board of Directors on 27th September, 2004.