(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. ORGANISATION AND OPERATIONS

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets, investments held for trading and certain financial instruments, which are carried at fair values.

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005.

The preparation of accounts in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise their judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in Note 3.

The adoption of new/revised HKFRSs

In 2006, the Group adopted the new/revised HKASs and interpretations of HKFRSs below, which have not been early adopted by the Group for the preparation of the 2005 consolidated accounts and are relevant to its operations. The 2005 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS-Interpretation ("HKAS-Int") 15	Operating Leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
HKFRS 2	Share-based Payment

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

(a) Basis of preparation *(Cont'd)*

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 23, 24, 27, 28, 33 and HKAS-Int 15 and 21 did not result in substantial changes to the Group's accounting policies. In summary :

– HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associated companies and other disclosures.

– HKASs 2, 7, 8, 10, 16, 23, 27, 28, and 33 and HKAS-Int 15 and 21 had no material effect on the Group's policies.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The accounting polices used in the accounts are consistent with those followed in the preparation of the Group's annual accounts for the year ended 31st May, 2005 except as described below.

The application of the new HKFRSs has resulted in a change in the presentation of the profit and loss account, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associated companies have been changed under HKAS 1 "Presentation of Financial Statements" and HKAS 27 "Consolidated and Separate Financial Statements", respectively. The changes in presentation have been applied retrospectively.

The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have major impacts on how the results for the current or prior accounting periods are prepared and presented:

(i) Leasehold land

In prior years, leasehold land and buildings held for own use were stated at revalued amounts less accumulated depreciation and accumulated impairment losses. Movements of revaluation surpluses or deficits were normally taken to the land and buildings revaluation reserve.

The adoption of revised HKAS 17 "Leases" has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from fixed assets to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account.

All buildings held for own use which are situated on freehold and leasehold land are presented as part of fixed assets and are stated at cost less accumulated depreciation, rather than at fair value.

The new accounting policies have been adopted retrospectively, with the opening balances of retained profits and the land and buildings revaluation reserve and the comparative information adjusted for the amounts relating to prior year. As a result, the profit attributable to equity holders of the Company for the year ended 31st May, 2005 is decreased by approximately HK$129,000 as compared with that previously disclosed.

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

(a) Basis of preparation *(Cont'd)*

(ii) Financial instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosures and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for accounting periods beginning on or after 1st January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

(a) Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

(i) Debt and equity securities previously accounted for under the treatment of Statement of Standard Accounting Practice ("SSAP") 24

Up to 31st May, 2005, the Group classified its investments in debt and equity securities, other than subsidiaries and associated companies, as investments in non-trading securities and trading securities in accordance with SSAP 24.

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 values 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 securities, 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 investment is impaired, the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account.

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.

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

(a) Basis of preparation *(Cont'd)*

(ii) Financial instruments *(Cont'd)*

(a) Classification and measurement of financial assets and financial liabilities *(Cont'd)*

(i) Debt and equity securities previously accounted for under the treatment of Statement of Standard Accounting Practice ("SSAP") 24 *(Cont'd)*

Trading securities (Cont'd)

From 1st June, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Financial assets are classified as "available-for-sale financial assets", "investments held for trading" (a category under "financial assets at fair value through profit or loss"), "loans and receivables" or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Available-for-sale financial assets" and "investments held for trading" are carried at fair value, with changes in fair values recognised in equity and profit or loss account, respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1st June, 2005, following the adoption of HKAS 39, the Group has re-designated "investments in non-trading securities" amounting to approximately HK$527,876,000 and "short-term investments" (including "investments in trading securities") amounting to approximately HK$83,317,000 recorded in the consolidated balance sheet as "available-for-sale financial assets" and "investments held for trading", respectively.

(ii) Financial assets and financial liabilities other than debt and equity securities

As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". "Other financial liabilities" are carried at amortised cost using the effective interest method. The adoption of HKAS 39 has no material impact on the financial assets and financial liabilities other than debt and equity securities of the Group.

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

(a) Basis of preparation *(Cont'd)*

(ii) Financial instruments *(Cont'd)*

(b) Derivative financial instruments
Consistent with prior years, derivative financial instruments arise from forward, option and swap transactions undertaken by the Group in the precious metals, foreign exchange and interest rate markets.

Derivative financial instruments are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion or those which do not qualify for hedge accounting is recognised immediately in the profit and loss account.

Up to 31st May, 2005, assets related to derivative financial instruments 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.

With the adoption of HKAS 39, from 1st June, 2005 onwards, assets and liabilities related to derivative financial instruments are recorded as "derivative financial instruments" under assets and liabilities in the consolidated balance sheet, respectively. The adoption of HKAS 39 in respect of derivative financial instruments has no material impact on the Group's results for the current year.

(c) Derecognition
HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous years. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after 1st June, 2005. In addition, the Group's discounted bills with recourse, which were previously treated as contingent liabilities, have been accounted for as actual liabilities prospectively on or after 1st June, 2005, as the financial assets derecognition conditions as stipulated in HKAS 39 have not been fulfilled.

(d) Convertible bonds
HKAS 32 requires an issuer of a compound financial instrument (that contains both financial liability and equity components) to separate the compound financial instrument into its liability and equity components. In subsequent years, the liability component is carried at amortised cost using the effective interest method. The principal impact of HKAS 32 on the Group is in relation to convertible bonds issued by the Company and its subsidiary that contain both liability and equity components. Previously, convertible bonds were classified as liabilities on the balance sheet. As HKAS 32 requires retrospective application, comparative figures have been restated.

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

(a) Basis of preparation *(Cont'd)*

(iii) Minority interests

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the profit and loss account as a deduction before arriving at the profit attributable to shareholders.

With effect from 1st June, 2005, in order to comply with HKAS 1 and HKAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to equity holders of the Company, and minority interests in the results of the Group for the year are presented on the face of the consolidated profit and loss account as an allocation of the total profit or loss for the year between the minority interests and the equity holders of the Company.

The presentation of minority interests in the consolidated balance sheet, profit and loss account and statement of changes in equity for the comparative period has been restated accordingly.

Gain or loss arising from transactions with minority interests are now recognised directly in equity and such policy has been applied retrospectively. As a result, the profit attributable to equity holders of the Company for the year ended 31st May, 2005 is increased by approximately HK$21,699,000 as compared with that previously disclosed.

(iv) Share-based payments

In prior years, no amounts were recognised when option holders were granted share options over shares in the Company. If the option holders chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1st June, 2005, in order to comply with HKFRS 2 "Share-based payment", the Group recognises the fair value of share options as an expense in the profit and loss account, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting polices. A corresponding increase is recognised in capital reserve within equity.

Where the option holders are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognises the fair value in the period in which the options are granted.

If an option holder chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised, the related capital reserve is transferred directly to retained profits.

As all the Group's options were granted to option holders before 7th November, 2002, the Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied. Accordingly, the adoption of HKFRS 2 has no impact on the Group's net assets and results for the current and prior years.

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

(a) **Basis of preparation** *(Cont'd)*

(v) **The summary of the effects of the changes in accounting policies**

The cumulative effects of the new HKFRSs as at 31st May, 2005 and 1st June, 2005 are summarised below.

	As at 31st May, 2005 (previously reported) HK$'000	Retrospective adjustments HKAS 17 HK$'000	Retrospective adjustments HKAS 27 HK$'000	HKAS 32 HK$'000	As at 31st May, 2005 (restated) HK$'000	Adjustments on 1st June, 2005 HKAS 39 HK$'000	As at 1st June, 2005 (restated) HK$'000
Fixed assets	368,620	(31,998)	–	–	336,622	–	336,622
Leasehold land	–	21,583	–	–	21,583	–	21,583
Intangible assets	790,100	–	(87,457)	–	702,643	–	702,643
Deferred tax assets	128,088	–	–	–	128,088	–	128,088
Interests in associated companies	161,440	(8,794)	–	–	152,646	–	152,646
Available-for-sale financial assets	–	–	–	–	–	527,876	527,876
Investments in non-trading securities	527,876	–	–	–	527,876	(527,876)	–
Inventories	1,160,671	–	–	–	1,160,671	–	1,160,671
Accounts receivable, net	450,036	–	–	–	450,036	–	450,036
Deposits, prepayments and other receivables	411,204	–	–	–	411,204	–	411,204
Due from an associated company	11,528	–	–	–	11,528	–	11,528
Investments held for trading	–	–	–	–	–	83,317	83,317
Short-term investments	83,317	–	–	–	83,317	(83,317)	–
Cash and cash equivalents	812,895	–	–	–	812,895	–	812,895
Accounts payable	(252,796)	–	–	–	(252,796)	–	(252,796)
Accruals and other payables	(453,234)	–	–	–	(453,234)	–	(453,234)
Bills payable	(166,877)	–	–	–	(166,877)	–	(166,877)
Provisions	(7,646)	–	–	–	(7,646)	–	(7,646)
Short-term bank borrowings	(1,121,902)	–	–	–	(1,121,902)	–	(1,121,902)
Current portion of long-term bank borrowings	(89,464)	–	–	–	(89,464)	–	(89,464)
Convertible bonds	(23,400)	–	–	13,035	(10,365)	–	(10,365)
Current portion of other long-term liabilities	(28,996)	–	–	–	(28,996)	–	(28,996)
Current portion of obligations under finance leases	(8,766)	–	–	–	(8,766)	–	(8,766)
Current portion of pensions and other post retirement obligations	(14,724)	–	–	–	(14,724)	–	(14,724)

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

(a) Basis of preparation *(Cont'd)*

(v) The summary of the effects of the changes in accounting policies *(Cont'd)*

The cumulative effects of the new HKFRSs as at 31st May, 2005 and 1st June, 2005 are summarised below.

	As at 31st May, 2005 (previously reported) HK$'000	Retrospective adjustments HKAS 17 HK$'000	HKAS 27 HK$'000	HKAS 32 HK$'000	As at 31st May, 2005 (restated) HK$'000	Adjustments on 1st June, 2005 HKAS 39 HK$'000	As at 1st June, 2005 (restated) HK$'000
Due to associated companies	(4,693)	–	–	–	(4,693)	–	(4,693)
Due to Directors	(481)	–	–	–	(481)	–	(481)
Loan from a minority shareholder	(1,324)	–	–	–	(1,324)	–	(1,324)
Taxation payable	(17,695)	–	–	–	(17,695)	–	(17,695)
Long-term bank borrowings	(458,543)	–	–	–	(458,543)	–	(458,543)
Other long-term liabilities	(5,308)	–	–	–	(5,308)	–	(5,308)
Pensions and other post retirement obligations	(215,928)	–	–	–	(215,928)	–	(215,928)
Deferred tax liabilities	(9,606)	1,915	–	–	(7,691)	–	(7,691)
Total effects on assets and liabilities	2,024,392	(17,294)	(87,457)	13,035	1,932,676	–	1,932,676
Minority interests	(275,968)	(213)	276,181	–	–	–	–
	1,748,424	(17,507)	188,724	13,035	1,932,676	–	1,932,676
Share capital	1,271,286	–	–	–	1,271,286	–	1,271,286
Reserves	432,543	(17,507)	(87,457)	13,035	340,614	–	340,614
Proposed final dividend	44,595	–	–	–	44,595	–	44,595
Equity attributable to equity holders of the Company	1,748,424	(17,507)	(87,457)	13,035	1,656,495	–	1,656,495
Minority interests	–	–	276,181	–	276,181	–	276,181
Total effects on total equity	1,748,424	(17,507)	188,724	13,035	1,932,676	–	1,932,676

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

(b) Group accounting

(i) Basis of consolidation

The consolidated accounts incorporate the accounts of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

Where necessary, adjustments are made to the accounts of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

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

(ii) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations", which are recognised and measured at fair value less costs to sell.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

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

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

(iii) **Associated companies**

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% to 50% of the voting rights. Investments in associated companies are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associated companies includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associated companies' post-acquisition profits or losses is recognised in the profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payment on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

(iv) **Foreign currencies**

The individual accounts of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated accounts, the results and financial position of each entity are expressed in Hong Kong dollars, which is the functional currency of the Company, and the presentation currency for the consolidated accounts.

In preparing the accounts of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts and options (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

For the purpose of presenting consolidated accounts, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Hong Kong dollars using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

(c) Fixed assets

(i) Freehold land

Freehold land is not subject to depreciation and is stated at cost less accumulated impairment losses.

(ii) Buildings

All buildings held for own use which are situated on freehold and leasehold land are presented as part of fixed assets. As from 1st June, 2005, buildings are stated at cost less accumulated depreciation and impairment losses, rather than at fair value.

(iii) Other fixed assets

All other fixed assets are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of fixed assets.

(iv) Depreciation

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

Freehold land	Nil
Buildings	2% to 5%
Leasehold improvements	10% to 50%
Furniture and equipment	15% to 33 ⅓%
Motor vehicles	25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(v) Gain or loss on disposal

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(vi) Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the profit and loss account during the financial period in which they are incurred.

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/Discount on acquisition

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

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

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

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

With the adoption of HKFRS 3, amortisation of goodwill has been discontinued since 1st June, 2004, and the related accumulated amortisation brought forward is transferred and eliminated against the cost of the goodwill. Goodwill previously written off against reserves will not be recognised in profit and loss account when all or part of the businesses to which the goodwill relates is disposed or when a cash-generating unit to which the goodwill relates becomes impaired. Goodwill is included in intangible assets and interests in associated companies at cost less accumulated impairment losses and subject to impairment testing at least annually.

Discount on acquisition (previously known as "negative goodwill") represents the excess of the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired over the cost of acquisition.

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

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

(i) Goodwill/Discount on acquisition *(Cont'd)*

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

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

With the adoption of HKFRS 3, discount on acquisition is recognised in the profit and loss account immediately on acquisition.

The carrying amount of negative goodwill previously recognised prior to 1st June, 2004, including that credited to the intangible assets and interests in associated companies, has been credited to the opening balance of retained profits.

(ii) Trademarks

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

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

In accordance with HKAS 36 "Impairment of assets", the Group completed its annual impairment test for the trademarks by comparing their recoverable amounts to their carrying amounts as at 31st May, 2006. The Group appointed LCH (Asia-Pacific) Surveyors Limited, independent professional valuer, to conduct valuations of the trademarks based on value-in-use calculation. The resulting values of the trademarks as at 31st May, 2006 were significantly higher than their carrying amounts.

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

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

(ii) Trademarks *(Cont'd)*
The valuations use cash flow projections based on financial estimates covering a twelve-month period, expected royalty rates deriving from the trademarks in the range of 6% to 10% and a discount rate of 9.7%. The cash flows are extrapolated using a steady long-term growth rate of 5% to 6%. This growth rate does not exceed the long-term average growth rate for luxury consumer markets in which the Group operates. The Directors have considered the above assumptions and valuations and also taken into account the business development going forward and the strategic distribution expansion worldwide. In the opinion of the Directors, there is no indication of impairment in the carrying amounts of the trademarks. The Directors believe that any reasonably foreseeable change in any of the above key assumptions would not cause the aggregate carrying amounts of the trademarks to exceed the aggregate recoverable amounts.

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

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

(f) Impairment of assets

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

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

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

(g) Financial instruments

Financial assets and financial liabilities are recognised in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(i) Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

(ii) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(iii) Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(iv) Borrowings

Interest-bearing loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs (see below).

(v) Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

(vi) Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials.

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

(i) 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.

(j) 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.

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

(k) 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.

(l) 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.

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

(m) 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.

(n) Revenue recognition

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

(i) Sale of goods
Sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to customers which generally coincides with the time when the goods are delivered to the customers and title has passed.

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

(iii) Income from assignment of brandnames or trademarks
Income from assignment of brandnames or trademarks is recognised when the risks and rewards of the ownership have been transferred to customers.

(iv) Commission income
Commission income relating to trading business is recognised when the related sourcing and quality support services are rendered.

(v) Franchising income
Franchising income is recognised when the right to receive payment is established.

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

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

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

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

(o) 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.

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

(p) Segment reporting

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Provision for bad and doubtful debts

The policy for provision for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional provision may be required.

(b) Provision for inventories

The management of the Group reviews the aging analysis on a regular basis, and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions. The Group also carries out an inventory review on a product-by-product basis and makes provision for obsolete items accordingly.

(c) Taxation

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Recognition of deferred tax assets, which principally relate to tax losses, depends on the management's expectation of future taxable profit that will be available against which the tax losses can be utilised. The outcome of their actual utilisation may be different.

(d) Pensions and other post retirement obligations – defined benefit plans

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity investments, borrowings, trade receivables, trade payables and convertible bonds. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies applied by the Group to mitigate these risks are set out below. Management monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Currency risk

The Group uses derivative financial instruments (primarily foreign currency forward and option contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions (see Note 25). The use of financial derivatives is governed by the Group's policies approved by the board of directors of the Company, which provide written principles on the use of financial derivatives consistent with the Group's risk management strategy.

Certain bank borrowings of the Group are denominated in foreign currencies (see Notes 28 and 29). The Group currently does not have a foreign currency hedging policy in respect of foreign currency debt. However, management monitors the related foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Credit risk

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 31st May, 2006 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet. The Group's credit risk is primarily attributable to its trade and other receivables. In order to minimise credit risk, management has delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, management reviews the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts, In this regard, management considers that the Group's credit risk is significantly reduced.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks and other institutions with either high credit-ratings or sound and recognised financial background in the industry.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Cash flow interest rate risk

The Group's cash flow interest rate risk primarily relates to variable-rate bank borrowings (see Notes 28 and 29). It is the Group's policy to convert a proportion of its variable-rate debt to fixed-rate debt. In the current year, the Group has been using interest rate swaps in order to mitigate its exposure associated with fluctuations relating to interest cash flows. The critical terms of these interest rate swaps are similar to those of hedged borrowings. These interest rate swaps are designated as effective cash flow hedges of interest rate risk (see Note 25).

5. 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, available-for-sale financial assets and investments held for trading. 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.

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

(a) Primary reporting format – business segments *(Cont'd)*

	Year ended 31st May, 2006					
	Timepiece products $'000	Jewellery products $'000	Leather & lifestyle products $'000	Investments $'000	Eliminations $'000	Group $'000
Turnover	2,071,754	1,086,684	2,817,012	–	–	5,975,450
Inter-segment revenue	22,533	6,384	5,516	–	(34,433)	–
Dividend income	–	–	–	2,168	–	2,168
Segment results	163,225	110,862	200,341	(2,362)	–	472,066
Finance costs						(137,284)
Profit before share of profit/(loss) of associated companies						334,782
Share of profit/(loss) of associated companies						10,363
Profit before taxation						345,145
Taxation						(5,923)
Profit for the year						339,222
Attributable to:						
Equity holders of the Company						304,957
Minority interests						34,265
						339,222
Segment assets	2,258,624	1,510,436	2,349,702	296,710	–	6,415,472
Interests in associated companies	161,102	(66)	425	–	–	161,461
Total assets						6,576,933
Segment liabilities	2,525,071	845,982	995,306	–	–	4,366,359
Total liabilities						4,366,359
Capital expenditure	156,613	15,151	120,789	–	–	292,553
Depreciation	18,142	9,824	45,746	–	–	73,712
Amortisation of intangible assets	11,679	2,010	5,067	–	–	18,756
Amortisation of leasehold land	547	129	–	–	–	676
Write-back of provision for bad debts	267	227	1,881	–	–	2,375
Bad debt expense	9,558	2,490	2,692	–	–	14,740
Provision for inventory	15,958	2,502	7,506	–	–	25,966

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

(a) **Primary reporting format – business segments** *(Cont'd)*

	Year ended 31st May, 2005 (Restated)					
	Timepiece products $'000	Jewellery products $'000	Leather & lifestyle products $'000	Investments $'000	Eliminations $'000	Group $'000
Turnover	1,735,909	851,352	1,129,445	—	—	3,716,706
Inter-segment revenue	18,231	7,666	7,440	—	(33,337)	—
Dividend income	—	—	—	1,753	—	1,753
Segment results	144,906	93,358	72,741	28,752	—	339,757
Finance costs						(93,507)
Profit before share of profit/ (loss) of associated companies						246,250
Share of profit/(loss) of associated companies						9,251
Profit before taxation						255,501
Taxation						3,036
Profit for the year						258,537
Attributable to:						
Equity holders of the Company						232,265
Minority interests						26,272
						258,537
Segment assets	1,312,426	1,163,056	1,642,787	528,194	—	4,646,463
Interests in associated companies	152,616	(58)	88	—	—	152,646
Total assets						4,799,109
Segment liabilities	(1,507,734)	(653,377)	(705,322)	—	—	(2,866,433)
Total liabilities						(2,866,433)
Capital expenditure						
Depreciation	21,379	8,472	22,301	—	—	52,152
Amortisation of intangible assets	20,294	2,132	3,053	—	—	25,479
Amortisation of leasehold land	535	126	—	—	—	661
Write-back of provision for bad debts	44	339	—	—	—	383
Bad debt expense	5,068	2,690	4,080	—	—	11,838
Write-back of provision for inventory	14,845	22,832	1,724	—	—	39,401
Provision for inventory	2,684	—	9,705	—	—	12,389

5. 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.

	Turnover $'000	**Year ended 31st May, 2006 Segment results $'000**	**Capital expenditure $'000**	**At 31st May, 2006 Total assets $'000**
Europe	**4,242,487**	**337,039**	**262,962**	**2,963,847**
America	**242,140**	**(39,428)**	**2,211**	**86,159**
Asia Pacific	**1,490,823**	**174,455**	**27,380**	**3,365,466**
	5,975,450	**472,066**	**292,553**	**6,415,472**
Interests in associated companies				**161,461**
Total assets				**6,576,933**

	Turnover $'000	Year ended 31st May, 2005 (Restated) Segment results $'000	Capital expenditure $'000	At 31st May, 2005 Total assets (Restated) $'000
Europe	2,751,139	263,517	355,232	2,414,602
America	156,161	(4,948)	5,837	84,625
Asia Pacific	809,406	81,188	88,695	2,147,236
	3,716,706	339,757	449,764	4,646,463
Interests in associated companies				152,646
Total assets				4,799,109

6. OTHER REVENUES

	2006 $'000	2005 (Restated) $'000
Interest income	**54,457**	46,858
Dividend income	**2,168**	1,753
Rental income, net of outgoings	**4,701**	5,806
Management fees	**—**	2,667
Gain on acquisition of subsidiaries	**—**	31,247
Gain on derivative financial instruments, net		
- forward gold and silver contracts	**7,191**	—
- silver option	**2,608**	—
- currency option	**9,954**	—
Gain on disposal of investments in non-trading securities, net	**—**	26,988
Gain on revaluation of listed trading securities	**—**	12
Gain on disposal of fixed assets	**—**	644
Gain on disposal of intangible assets	**15,692**	176
Redemption premium received on maturity of equity-linked notes	**3,220**	14,416
Exchange gain, net	**1,664**	—
Others	**8,611**	16,243
	110,266	146,810

7. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2006 $'000	2005 (Restated) $'000
Crediting:		
Interest income from		
- associated companies	—	88
- bank deposits	7,976	2,263
- promissory notes	41,599	37,333
- equity-linked notes	1,059	2,855
- others	3,824	4,319
Dividend income	2,168	1,753
Redemption premium received on maturity of equity-linked notes	3,220	14,416
Rental income, net of outgoings	4,701	5,806
Gain on disposal of investments in listed non-trading securities	—	26,988
Gain on revaluation of listed trading securities	—	12
Gain on derivative financial instruments		
- forward gold/silver contracts	7,191	—
- silver options	2,608	—
- currency options	9,954	—
Gain on disposal of fixed assets	—	644
Gain on disposal of intangible assets	15,692	176
Gain on acquisition of subsidiaries *(Note 34(c))*	—	31,247
Write-back of provision for inventory	—	39,401
Write-back of provision for bad debts	2,375	383
Effect of changes in exchange rate	1,664	—

7. OPERATING PROFIT *(Cont'd)*

	2006 $'000	2005 (Restated) $'000
Charging:		
Staff costs (including Directors' emoluments) *(Note 13)*	**1,056,874**	784,042
Depreciation on		
- owned fixed assets	**72,784**	51,684
- leased fixed assets	**929**	468
Loss on disposal of fixed assets	**2,788**	—
Amortisation of intangible assets *(Note 17)*	**18,756**	25,479
Amortisation of leasehold land	**676**	661
Auditors' remuneration		
- current year	**9,102**	8,143
- prior year under-provision	**238**	481
Operating leases		
- land and buildings	**287,746**	110,306
- hire of furniture and equipment	**23,963**	23,153
Provision for inventory	**25,966**	12,389
Bad debt expense	**12,364**	11,838
Effect of changes in exchange rates	**—**	17,188
Loss on disposal of available-for-sale financial assets		
- listed securities, net	**30**	—
- unlisted securities, net	**4,498**	—
Loss on derivative financial instruments		
- forward foreign exchange contracts	**11,549**	—
Loss on fair value on investments held for trading	**10**	—
Share of tax of associated companies	**335**	218

8. FINANCE COSTS

	2006 $'000	2005 $'000
Interest on bank borrowings		
- wholly repayable within five years	**108,956**	60,990
- not wholly repayable within five years	**206**	1,318
Interest on other loans and notes payable		
- wholly repayable within five years	**10,199**	2,066
- not wholly repayable within five years	**13**	33
Interest element of finance leases	**250**	1,182
Interest on convertible bonds	**93**	551
Interest on advances from associated companies	**588**	287
Bank charges	**26,069**	27,080
Net fair value gain on financial instruments	**(9,090)**	—
	137,284	93,507

9. TAXATION

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

	2006 $'000	2005 (Restated) $'000
The Company and its subsidiaries		
Current taxation:		
Hong Kong profits tax		
- Provision for the year	**3,567**	2,640
- Under/(Over)-provision in prior years	**149**	(6,426)
Overseas taxation		
- Provision for the year	**15,744**	4,084
- Under-provision in prior years	**2,921**	2,004
Deferred taxation *(Note 18)*		
- Recognised during the year	**(16,458)**	(5,338)
	5,923	(3,036)

Hong Kong profits tax has been provided at 17.5% (2005: 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 with overseas operations at the rates of taxation prevailing in the countries in which the subsidiaries operated.

9. TAXATION *(Cont'd)*

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

	2006	2005 (Restated)
	$'000	$'000
Profit before taxation	**345,145**	255,501
Tax at the domestic profits tax rate of 17.5% (2005: 17.5%)	**60,398**	42,928
Tax effect of income not subject to taxation	**(59,679)**	(57,326)
Tax effect of expenses that are not deductible in determining taxable profit	**10,206**	11,321
Tax effect of utilisation of tax losses not previously recognised	**(5,674)**	(373)
Tax effect of tax losses not recognised	**(11,401)**	12,776
Tax effect of other temporary differences not recognised	**(1,059)**	304
Under/(Over) provision in prior years	**3,070**	(4,422)
Effect of different tax rates of subsidiaries and associated companies operating in other jurisdictions	**10,062**	(5,945)
Others	**—**	(2,299)
Tax expense/(income) for the year	**5,923**	(3,036)

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders included a profit of approximately $102,055,000 of the Company (2005: $73,915,000).

11. DIVIDENDS

	2006	2005
	$'000	$'000
Interim, paid, of 2.80 cents (2005: 2.50 cents) per ordinary share	**36,003**	30,830
Final, proposed, of 5.00 cents (2005: 3.50 cents) per ordinary share	**64,291**	44,595
	100,294	75,425

During the year, an interim dividend of approximately 36,003,000 (2005: 30,830,000) was declared and paid on 29th March, 2006.

At an annual general meeting to be held on 17th November, 2006, the Directors will recommend a final dividend of 5.00 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in the accounts, but will be reflected as an appropriation of retained profits for the year ending 31st May, 2007, if approved by shareholders at the said meeting.

12. EARNINGS PER SHARE

(a) Basic earnings per share

The basic earnings per share was calculated based on the consolidated profit attributable to equity holders of the Company for the year of approximately $304,957,000 (2005: $232,265,000) and the weighted average number of ordinary shares of approximately 1,278,628,000 (2005: 1,203,081,000) 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 equity holders of the Company for the year of approximately $304,995,000 (2005: $232,604,000) and the weighted average number of ordinary shares of approximately 1,285,470,000 (2005: 1,287,629,000) that would be in issue having been adjusted for the effects of all dilutive potential ordinary shares issuable during the year.

(c) Reconciliation

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

	2006	2005 (Restated)
	$'000	$'000
Profit attributable to equity holders of the Company used in calculating basic earnings per share	**304,957**	232,265
Interest savings in respect of convertible bonds	**38**	339
Profit attributable to equity holders of the Company used in calculating diluted earnings per share	**304,995**	232,604

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

	2006	2005
Weighted average number of ordinary shares used in calculating basic earnings per share	**1,278,628,000**	1,203,081,000
Dilutive potential effect in respect of		
- convertible bonds	**5,696,000**	84,530,000
- share options of the Company	**1,146,000**	18,000
Weighted average number of ordinary shares used in calculating diluted earnings per share	**1,285,470,000**	1,287,629,000

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

	2006 $'000	2005 $'000
Wages and salaries	**1,044,503**	773,525
Pension costs		
- Defined benefits plans *(Note 31 (b))*	**8,994**	7,662
- Defined contribution plan *(Note 31 (a))*	**3,817**	3,310
Less: Refund of forfeited contributions *(Note 31 (a))*	**(440)**	(455)
	1,056,874	784,042

14. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) The emoluments paid or payable to each of the Executive Directors and Independent Non–Executive Directors of the Company during the year were as follows:

2006

	Fees $'000	**Basic salaries, housing allowances, other allowances and benefits in kind $'000**	**Contributions to pension schemes $'000**	**Bonuses* $'000**	**Other emoluments $'000**	**Total $'000**
Executive Directors						
Hans-Joerg Seeberger	–	5,653	510	200	–	6,363
Peter Ka Yue Lee	–	1,948	105	–	–	2,053
Michael Richard Poix	–	2,247	–	–	–	2,247
Ho Yin Chik	–	1,176	82	–	–	1,258
David Wai Kwong Wong	–	1,920	12	–	–	1,932
	–	12,944	709	200	–	13,853
Independent Non-Executive Directors						
Dr. Westermeyer Goetz Reiner	100	–	–	–	170	270
Professor Udo Glittenberg	100	–	–	–	–	100
Andy Yick Man Ng	200	–	–	–	–	200
	400	–	–	–	170	570
Total	400	12,944	709	200	170	14,423

14. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(Cont'd)*

(a) The emoluments paid or payable to each of the Executive Directors and Independent NonExecutive Directors of the Company during the year were as follows: *(Cont'd)*

2005

	Fees $'000	Basic salaries, housing allowances, other allowances and benefits in kind $'000	Contributions to pension schemes $'000	Bonuses* $'000	Other emoluments $'000	Total $'000
Executive Directors						
Hans-Joerg Seeberger	–	5,639	458	200	–	6,297
Peter Ka Yue Lee	–	1,533	72	–	–	1,605
Michael Richard Poix	–	2,337	–	–	–	2,337
Ho Yin Chik	–	974	72	–	–	1,046
David Wai Kwong Wong	100	800	5	–	–	905
	100	11,283	607	200	–	12,190
Independent Non-Executive Directors						
Dr. Westermeyer Goetz Reiner	100	–	–	–	–	100
Professor Udo Glittenberg	100	–	–	–	–	100
Andy Yick Man Ng	100	–	–	–	–	100
	300	–	–	–	–	300
Total	400	11,283	607	200	–	12,490

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.

* The Directors were entitled to a discretionary bonus.

14. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(Cont'd)*

(b) Five highest paid individuals

(i) The five individuals whose emoluments were the highest in the Group for the year included three (2005: two) Directors whose emoluments were set out in the analysis presented above. The emoluments payable to the remaining two (2005: three) individuals during the year were analysed below:

	2006	2005
	$'000	$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**3,459**	3,155
Bonuses	**1,040**	1,417
Contributions to pension schemes	**—**	95
Compensation for loss of office	**57**	992
	4,556	5,659

(ii) The emoluments of the aforementioned two (2005: three) non-director employees fell within the following bands:

	Number of individuals	
	2006	2005
$1,500,001 - $2,000,000	**1**	2
$2,000,001 - $2,500,000	**—**	1
$2,500,001 - $3,000,000	**1**	—
	2	3

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

15. FIXED ASSETS

Group

	Freehold land and buildings $'000	Leasehold buildings $'000	Leasehold improvements $'000	Furniture and equipment $'000	Motor vehicles $'000	Total $'000
Cost						
At 1st June, 2005, as previously reported	97,669	39,500	132,033	493,512	6,967	769,681
Effect of adopting HKAS 17	–	(29,842)	–	–	–	(29,842)
At 1st June, 2005, as restated	97,669	9,658	132,033	493,512	6,967	739,839
Additions	62	–	68,773	76,169	2,943	147,947
Acquisition of subsidiaries	–	–	555	1,924	11	2,490
Reclassification	–	–	(2,025)	2,025	–	–
Disposals	–	–	(5,889)	(102,484)	(2,630)	(111,003)
Exchange adjustments	2,378	–	9,040	12,914	90	24,422
At 31st May, 2006	**100,109**	**9,658**	**202,487**	**484,060**	**7,381**	**803,695**
Accumulated depreciation and impairment losses						
At 1st June, 2005, as previously reported	35,277	–	26,377	334,218	5,189	401,061
Effect of adopting HKAS 17	–	2,156	–	–	–	2,156
At 1st June, 2005, as restated	35,277	2,156	26,377	334,218	5,189	403,217
Charge for the year	3,154	231	22,057	47,274	996	73,712
Reclassification	–	–	(689)	689	–	–
Disposals	–	–	(4,548)	(97,881)	(2,057)	(104,486)
Exchange adjustments	1,354	–	3,744	9,450	55	14,603
At 31st May, 2006	**39,785**	**2,387**	**46,941**	**293,750**	**4,183**	**387,046**
Net book value						
At 31st May, 2006	**60,324**	**7,271**	**155,546**	**190,310**	**3,198**	**416,649**
At 31st May, 2005	62,392	7,502	105,656	159,294	1,778	336,622

15. FIXED ASSETS *(Cont'd)*

Notes:

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

	2006	2005 (Restated)
	$'000	$'000
In Hong Kong, held on:		
Leases of over 50 years	**—**	—
Leases of between 10 to 50 years	**7,271**	7,502
Outside Hong Kong, held on:		
Freehold	**60,324**	62,392
	67,595	69,894

(b) The net book value of furniture and equipment and motor vehicles held under finance leases at 31st May, 2006 amounted to approximately $9,396,000 (2005: $975,000) and $1,012,000 (2005: $Nil) respectively.

(c) At 31st May, 2006, certain freehold land and buildings with an aggregate net book value of approximately $52,050,000 (2005: $53,013,000) were pledged as security for banking facilities granted to certain subsidiaries of the Group in Europe *(Note 36(b))*.

16. LEASEHOLD LAND

Group

	Total $'000
Cost	
At 1st June, 2005, as previously reported	—
Effect of adopting HKAS 17	28,259
At 1st June, 2005, as restated and 31st May, 2006	**28,259**
Accumulated depreciation	
At 1st June, 2005, as previously reported	—
Effect of adopting HKAS 17	6,676
At 1st June, 2005, as restated	6,676
Charge for the year	676
At 31st May, 2006	**7,352**
Net book value	
At 31st May, 2006	**20,907**
At 31st May, 2005	21,583

At 31st May, 2005 and 31st May, 2006, all interests in leasehold land are held in Hong Kong with remaining lease period between 10 to 50 years.

17. INTANGIBLE ASSETS

Group

	Licences and trademarks $'000	Development costs $'000	Know-how $'000	Leasehold rights $'000	Goodwill $'000	Total $'000
Cost or valuation						
At 1st June, 2005, as previously reported	595,040	48,635	28,963	80,539	212,678	965,855
Effect of adopting HKAS 38	—	—	—	—	(87,457)	(87,457)
At 1st June, 2005, as restated	595,040	48,635	28,963	80,539	125,221	878,398
Additions	13,629	112	—	8,101	—	21,842
Acquisition of subsidiary (a)	250	—	—	—	120,024	120,274
Disposals	(3,877)	(270)	—	(6,292)	—	(10,439)
Exchange adjustments	3,562	(398)	170	1,551	9,868	14,753
At 31st May, 2006	**608,604**	**48,079**	**29,133**	**83,899**	**255,113**	**1,024,828**

17. INTANGIBLE ASSETS *(Cont'd)*

Group *(Cont'd)*

	Licences and trademarks	Development costs	Know-how	Leasehold rights	Goodwill	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Accumulated amortisation						
At 1st June, 2005	123,387	40,256	11,789	323	—	175,755
Charge for the year	10,315	4,345	1,881	2,215	—	18,756
Disposals	(3,241)	(250)	—	(367)	—	(3,858)
Exchange adjustments	1,013	(316)	51	86	—	834
At 31st May, 2006	**131,474**	**44,035**	**13,721**	**2,257**	**—**	**191,487**
Net book value						
At 31st May, 2006	**477,130**	**4,044**	**15,412**	**81,642**	**255,113**	**833,341**
At 31st May, 2005	471,653	8,379	17,174	80,216	125,221	702,643

Notes:

(a) In December 2005, the Group acquired 84.84% equity interest in a subsidiary and the resultant goodwill is attributable to the development potential of the business acquired.

(b) The net book value of a software system amounting to approximately $1,489,000 (2005: $36,135,000) included under intangible assets was held under finance leases at 31st May, 2006.

(c) At 31st May, 2006, certain leasehold rights with an aggregate net book value of approximately $16,875,000 (2005: $26,590,000) were pledged as security for banking facilities granted to a subsidiary of the Group. *(Note 36(b))*

(d) In accordance with HKAS 36 "Impairment of assets", the Group completed its annual impairment test for trademarks and goodwill by comparing their recoverable amounts to their carrying amounts as at 31st May, 2006.

For trademarks, the Group appointed LCH (Asia-Pacific) Surveyors Limited, independent professional valuer, to conduct valuations of the trademarks based on value-in-use calculation. The resulting values of the trademarks as at 31st May, 2006 were significantly higher than their carrying amounts.

The valuations use cash flow projections based on financial estimates covering a twelve-month period, expected royalty rates deriving from the trademarks in the range of 6% to 10% and a discount rate of 9.7%. The cash flows are extrapolated using a steady long-term growth rate of 5% to 6%.

For goodwill, the Group prepares cash flow forecasts derived from the most recent financial budgets and estimates covering a twelve-month period, expected income generating rates deriving from the goodwill at 7% and a discount rate of 9.7%. The cash flows are extrapolated using a steady long-term growth rate of 5%.

Such growth rate does not exceed the long-term average growth rate for luxury consumer markets in which the Group operates. The Directors have considered the above assumptions and valuations and also taken into account the business development going forward and the strategic distribution expansion worldwide based on past performance and expectations for the market development.

In the opinion of the Directors, there is no indication of impairment in the carrying amounts of the trademarks and goodwill. The Directors believe that any reasonably foreseeable change in any of the above key assumptions would not cause the aggregate carrying amounts of the trademarks and goodwill to exceed the aggregate recoverable amounts.

18. DEFERRED TAX ASSETS/(LIABILITIES)

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

	Group 2006 $'000	Group 2005 (Restated) $'000
Beginning of year	**120,397**	100,921
Exchange adjustments	**1,436**	(747)
Acquisition of subsidiaries	**—**	11,720
Recognised in the profit and loss account during the year	**16,458**	5,398
Transfer from taxation payable	**—**	3,105
End of year	**138,291**	120,397

Provided for in respect of:

Group

	Accelerated depreciation allowances $'000	Deferred expense/ (income) $'000	Impairment of assets $'000	Tax losses carried forward $'000	Retirement benefit obligation $'000	Revaluation of properties $'000	Unrealised profit in inventories of subsidiaries $'000	Total $'000
Balance at 1st June, 2005, as previously reported	(7,193)	3,734	3,379	96,111	1,234	(1,855)	23,072	118,482
Effect of adopting HKAS 17	60	–	–	–	–	1,855	–	1,915
Balance at 1st June, 2005, as restated	(7,133)	3,734	3,379	96,111	1,234	–	23,072	120,397
(Charge)/Credit to the profit and loss account for the year	1,154	125	262	16,820	(561)	–	(1,342)	16,458
Exchange adjustments	(10)	135	216	1,098	(3)	–	–	1,436
Balance at 31st May, 2006	**(5,989)**	**3,994**	**3,857**	**114,029**	**670**	**–**	**21,730**	**138,291**

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.

18. 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% (2005:17.5%). Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred tax relates to the same fiscal authority. The following amounts are shown in the consolidated balance sheet:

	Group	
	2006	2005
	$'000	$'000
Deferred tax liabilities	**(6,502)**	(7,691)
Deferred tax assets	**144,793**	128,088
	138,291	120,397

(c) At 31st May, 2006, the Group has unused tax losses of approximately $1,496,396,000 (2005: $393,408,000) available for offset against future profits. Deferred tax asset has been recognised in respect of approximately $462,400,000 (2005: $23,175,000) of such losses. No deferred tax asset has been recognised in respect of the remaining $1,033,996,000 (2005: $370,233,000) due to the unpredictability of future profit streams. The unrecognised tax losses will expire through 5 years to indefinitely.

19. INTERESTS IN SUBSIDIARIES

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

	2006	2005
	$'000	$'000
Shares listed in Hong Kong, at cost	**118,691**	118,691
Unlisted shares, at cost	**328,239**	328,239
Less: Accumulated impairment losses	**(29,000)**	(29,000)
	417,930	417,930
Market value of shares listed in Hong Kong	**264,919**	239,859

Notes:

(a) Amounts due from/(to) subsidiaries were unsecured and repayable on demand. Except for an amount of approximately $127,303,000 (2005: $275,801,000) due from a subsidiary which bore interest at commercial lending rate, the remaining balances were non-interest bearing.

(b) At 31st May, 2006, the Company guaranteed the payments and performance by several subsidiaries under certain license agreements pursuant to which the subsidiaries were licensees *(Note 35)*.

(c) At 31st May, 2006, the Company provided corporate guarantees to commercial banks and other institutions of approximately $12,741,349,000 (2005: $3,881,015,000) to secure banking and other facilities of certain subsidiaries *(Notes 35 and 36(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, 2006.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. INTERESTS IN SUBSIDIARIES *(Cont'd)*

The following is a list of the significant subsidiaries at 31st May, 2006:

	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 Directly	Indirectly	Principal activities
				%	%	
#	Abel & Zimmermann GmbH & Co KG	Germany	EUR511,292	—	46.44	Manufacturing and distribution of jewellery
	Bartelli (Holdings) Limited	British Virgin Islands	US$1	—	100	Licensing of leather trademark
	Bartelli Leather Products Limited	Hong Kong	$10,000	—	100	Manufacturing and distribution of leather products
# @	Bartelli Leather Products (Shenzhen) Co. Ltd.	The People's Republic of China ("PRC")	US$500,000	—	100	Manufacturing of leather products
# @	Calibre Jewellery (Shenzhen) Co. Ltd.	The PRC	US$600,000	—	54.63	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	Germany	EUR1,000,000	—	100	Manufacturing and distribution of leather products
#	DK Digital GmbH	Germany	EUR111,100	—	84.84	Distribution of electronics consumer products

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. 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

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. INTERESTS IN SUBSIDIARIES *(Cont'd)*

	Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued capital/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
#	EganaGoldpfeil Benelux Jewel B.V.	The Netherlands	EUR18,000	—	54.63	Distribution of jewellery
#	EganaGoldpfeil Benelux Time B.V.	The Netherlands	EUR18,000	—	100	Distribution of watches
#	EganaGoldpfeil Europe (Holdings) GmbH	Germany	EUR2,600,000	100	—	Investment holding
#	EganaGoldpfeil Italia s.r.l.	Italy	EUR25,823	—	100	Distribution of watches
#	EganaGoldpfeil (Switzerland) Limited	Switzerland	CHF1,000,000	—	100	Design, manufacturing and distribution of watches
	Egana-Haru Mfr. Corp. Limited	Hong Kong	$2	—	100	Design, assembly, distribution and licensee of watches
#	Egana India Private Limited	India	US$500,000	—	90	Distribution of watches and jewellery
	Egana Investments (Pacific) Limited	Cook Islands	US$1	—	54.63	Investment holding and licensing operation

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. INTERESTS IN SUBSIDIARIES *(Cont'd)*

	Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued capital/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
*	Egana Jewellery & Pearls Limited ("EJPL")	Cayman Islands/ Hong Kong	$225,276,411	39.73	14.90	Investment holding
#	Egana Jewelry & Pearls (America) Corp.	The United States of America	US$881,000	—	54.63	Design and distribution of jewellery
#	Egana Juwelen & Perlen Handels GmbH	Austria	EUR36,336	—	54.63	Distribution of jewellery
	Egana Marketing (Suisse) Inc.	Cook Islands	US$1	—	54.63	Provision of marketing and consultancy services
#	Egana Schmuck und Perlen GmbH	Germany	EUR25,565	—	54.63	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

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. INTERESTS IN SUBSIDIARIES *(Cont'd)*

	Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued capital/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
#	European Technology & Logistic Center GmbH	Germany	EUR500,000	—	100	Technology and logistic center
	Everstone Limited	Hong Kong/ The PRC	$100	—	54.63	Subcontracting and manufacturing of jewellery
	Funasia Investments Limited	British Virgin Islands	US$14,000,001	—	100	Investment holding
	Glorious Concept Limited	British Virgin Islands	US$10	—	100	Investment holding
#	Goldpfeil GmbH	Germany	EUR3,600,000	—	100	Design, manufacturing and distribution of luxury leather goods
	Goldpfeil Distribution and Services Limited	Hong Kong	$500,000	—	100	Distribution and retailing of leather products
#	Goldpfeil Genève S.A.	Switzerland	CHF100,000	—	100	Distribution of watches
#	Guthmann + Wittenauer Schmuck GmbH	Germany	EUR1,500,000	—	54.63	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

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. **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 Directly	Indirectly	Principal activities
				%	%	
#	Jacquelin Designs Enterprises, Inc.	The United States of America	—	—	54.63	Design and distribution of jewellery
	Junghans Asia Limited	Hong Kong	$1,000	—	100	Distribution of watches
	Junghans Asia (Holdings) Limited	British Virgin Islands	US$100	—	100	Investment holding
	Junghans Group Limited	British Virgin Islands	US$1	—	100	Investment holding
#	Junghans Uhren GmbH	Germany	EUR5,112,919	—	100	Manufacturing and distribution of watches
	Kai-Yin Lo Limited	Hong Kong	$2,600,000	—	100	Design, manufacturing and retailing of jewellery
#	Keimothai Limited	Thailand	Baht81,000,000	—	54.63	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	—	54.63	Design, manufacturing, distribution and licensee of jewellery
	P.C. International Marketing Limited	British Virgin Islands/France	US$1	100	—	Licensing of watches and jewellery trademarks/ brandnames
	Pioneer Ventures Limited	Hong Kong	$100	—	100	General trading and quality inspection
#	Porzellan-Manufaktur Ludwigsburg GmbH	Germany	EUR1,000,000	—	87.5	Manufacturing of porcelain

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. INTERESTS IN SUBSIDIARIES *(Cont'd)*

	Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued capital/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
#	Rebner GmbH	Germany	EUR25,564	—	46.44	Investment holding
#	Salamander in Austria GmbH	Austria	EUR4,500,000	—	100	Retailing of shoes
#	Salamander CR spol.s.r.o.	Czech Republic	CZK18,222,000	—	100	Retailing of shoes
#	Salamander France S.A.S.	France and Belgium	EUR4,458,600	—	100	Retailing of shoes
#	Salamander GmbH	Germany	EUR8,000,000	—	100	Retailing of shoes
#	Salamander Hungaria Kft.	Hungary	HUF662,880,000	—	99.849	Retailing of shoes
#	Salamander in Russland GmbH (Formerly known as Salamander Ost GmbH)	Russia	RUB85,065,050	—	100	Retailing of shoes
#	Salamander Polska Sp.z.o.o.	Poland	PLN2,808,000	—	100	Retailing of shoes
#	Sioux GmbH	Germany	EUR7,669,000	—	100	Manufacturing and distribution of footwear
	Time Success Industrial Limited	Hong Kong	$2	—	54.63	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

19. INTERESTS IN SUBSIDIARIES *(Cont'd)*

Notes:

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

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

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

@ Wholly foreign-owned enterprise incorporated in the PRC

20. INTERESTS IN ASSOCIATED COMPANIES

	Group	
	2006	2005 (Restated)
	$'000	$'000
Share of net assets/(liabilities)		
Company listed in Hong Kong	**100,168**	96,877
Unlisted companies	**(2,976)**	(8,500)
	97,192	88,377
Goodwill	**64,269**	64,269
	161,461	152,646
The Group's share of the market value of the company listed in Hong Kong	**29,744**	41,214

The underlying value of interests in associated companies was, in the opinion of the Directors, not less than the carrying value at 31st May, 2006.

20. INTERESTS IN ASSOCIATED COMPANIES *(Cont'd)*

The following is a list of the principal associated companies at 31st May, 2006:

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

* Listed on the Stock Exchange

The financial statements of Tonic are made up to 31st March each year. For the purpose of applying the equity method of accounting the financial statements of Tonic for the year ended 31st March, 2006 have been used and appropriate adjustments have been made for the effects of significant transactions between that date and 31st May, 2006.

Summarised financial information in respect of the Group's associated companies is set out below:

	2006 **$'000**	2005 $'000
Total assets	**1,607,180**	1,407,775
Total liabilities	**(1,111,116)**	(939,741)
Net assets	**496,064**	468,034
Group's share of associated companies' net assets	**97,192**	88,377
Revenue	**2,623,860**	2,854,894
Profit for the year	**35,077**	37,680
Group's share of associated companies' profit for the year	**10,363**	9,251

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group 2006 $'000	Company 2006 $'000
Equity securities:		
Strategic investments (b)	**94,689**	**—**
Others (c)	**201,709**	**6,657**
	296,398	**6,657**

Notes:

(a) As mentioned in Note 2(a), from 1st June, 2005 onwards, investments in non-trading securities have been reclassified to available-for-sale financial assets in accordance with the requirements of HKAS 39. At 31st May, 2005, investments in non-trading securities amounted to approximately HK$527,876,000.

The Group has not designated any financial assets that are not classified as held for trading as financial assets at fair value through profit and loss.

(b) Strategic investments:

	Group 2006 $'000
Unlisted, at fair value	
- Investment in third party private companies (i)	**23,438**
- Private closed-end funds (ii)	**71,251**
	94,689

(i) At 31st May, 2006, the Group had strategic investments in a private company with a view to enhancing the Group's distribution network in Asia. Its principal activities are investment holding, trading of consumer products, rendering of marketing promotion service, distribution and trading of fashion accessory products.

In the opinion of the Directors, there was no impairment in the carrying value of these investments at 31st May, 2006.

(ii) At 31st May, 2006, the Group had strategic investments in a private closed-end fund, 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 fund is under the management of a third party Hong Kong listed investment banking group.

At 31st May, 2006, the investment in private closed-end funds was stated at fair value which was determined by the Directors.

In the opinion of the Directors, there was no impairment in the carrying value of the funds at 31st May, 2006.

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS *(Cont'd)*

Notes: (Cont'd)

(c) Others:

	Group 2006 $'000
Listed in Hong Kong, at quoted market price	**81,966**
Listed other than in Hong Kong, at quoted market price	**2,274**
Unlisted, at fair value	**117,469**
	201,709

	Company 2006 $'000
Listed in Hong Kong, at quoted market price	**6,342**
Unlisted, at fair value	**315**
	6,657

In the opinion of Directors, there was no impairment in the carrying value of the available-for-sale financial assets as at 31st May, 2006.

22. INVENTORIES

	Group 2006 $'000	Group 2005 $'000
Raw materials	**368,623**	285,303
Work-in-progress	**116,794**	101,572
Finished goods	**1,003,321**	912,129
	1,488,738	1,299,004
Less: Provision for inventory	**(170,136)**	(138,333)
	1,318,602	1,160,671

At 31st May, 2005 and 2006, no inventory was carried at net realisable value.

At 31st May, 2006, the carrying amount of inventories that was pledged as security for banking facilities granted to certain subsidiaries of the Group amounted to approximately $57,821,000 (2005: $90,782,000) (Note 36 (b)).

23. 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, 2006 after provision for bad and doubtful debts was as follows:

	Group	
	2006	2005
	$'000	$'000
Due		
In current month	**1,360,020**	308,254
Between one to two months	**41,618**	51,404
Between two to three months	**12,722**	24,744
Between three to four months	**10,781**	16,780
Over four months	**76,521**	48,854
	1,501,662	450,036

The Directors consider that the carrying amount of accounts receivable approximate their fair value.

24. INVESTMENTS HELD FOR TRADING

	Group
	2006
	$'000
Trading securities listed other than in Hong Kong	**312**

As mentioned in Note 2(a), from 1st June, 2005 onwards, short-term investments (including investments in trading securities) have been reclassified to investments held for trading in accordance with the requirements of HKAS 39. At 31st May, 2005, short-term investments amounted to approximately HK$83,317,000.

The Group has not designated any financial assets that are not classified as held for trading as financial assets at fair value through profit and loss.

25. DERIVATIVE FINANCIAL INSTRUMENTS

	Group 2006 Assets '000	Group 2006 Liabilities '000	Company 2006 Assets '000	Company 2006 Liabilities '000
Forward foreign exchange contracts	—	11,549	—	1,820
Currency options	186	27,156	—	—
Forward gold and silver contracts	7,818	627	—	—
Silver options	2,608	—	—	—
Interest rate swaps	5,859	267	123	268
	16,471	39,599	123	2,088
Analysed as:				
Non-current	6,045	2,029	123	899
Current	10,426	37,570	—	1,189
	16,471	39,599	123	2,088

(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, 2006, outstanding forward foreign exchange contracts to buy EUR and USD and sell EUR and USD currency with a notional principal value of approximately EUR6,964,000 (2005: EUR3,800,000) and US$31,060,000 (2005: US$17,420,000) and EUR18,820,000 (2005: EUR935,000) and USD30,500,000 (2005: US$Nil) equivalent respectively, outstanding currency option to buy Euro Dollars call with a notional principal value of EUR15,650,000 (2005: EUR NIL), outstanding forward gold contracts to purchase gold and silver with a notional principal value of approximately US$8,150,000 (2005: US$8,150,000) equivalent, written silver option to sell to silver with a notional principal value of US$3,217,000 (2005: US$Nil) and written currency options (principally Euro Dollars) with a notional principal value of EUR127,923,000 (2005: EUR106,560,000), JPY560,000,000 (2005: JPY430,000,000) and CHF1,460,000 (2005: CHF1,600,000) equivalent. Such outstanding contracts were scheduled to settle or expire, through July 2007.

(ii) At 31st May, 2006, the Group had outstanding interest rate swap contracts with a notional amount of approximately $360,000,000 (2005: $320,000,000). Such outstanding contracts were scheduled to settle or expire, through June 2008.

26. ACCOUNTS PAYABLE, ACCRUALS AND OTHER PAYABLES

	Group		Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Accounts payable	**896,020**	252,796	**—**	—
Accruals and other payables	**435,210**	453,234	**9,536**	5,700
	1,331,230	706,030	**9,536**	5,700

At 31st May, 2006, the aging analysis of the accounts payable was as follows:

	Group	
	2006	2005
	$'000	$'000
Due		
In current month	**844,144**	195,405
Between one to two months	**33,398**	17,785
Between two to three months	**6,199**	12,516
Between three to four months	**2,046**	6,980
Over four months	**10,233**	20,110
	896,020	252,796

The Directors consider that the carrying amount of accounts payable approximate their fair value.

27. PROVISIONS

Group

	Warranty (a)	**Restructuring (b)**	**Total**
	$'000	$'000	$'000
At 1st June, 2005	7,646	—	7,646
Additional provisions	6,869	5,709	12,578
Arising from the acquisition of subsidiaries	6,703	—	6,703
Less: Amounts utilised	(10,232)	(3,040)	(13,272)
Less: Unused amounts reversed	(5,547)	-	(5,547)
Exchange adjustments	295	121	416
At 31st May, 2006	**5,734**	**2,790**	**8,524**

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 plan of a German subsidiary of the Group. The provision was expected to be fully utilised during 2007.

28. SHORT-TERM BANK BORROWINGS

	Group		Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Bank loans and overdrafts	**815,501**	918,221	**—**	—
Trust receipts and import loans	**290,015**	203,681	**—**	—
	1,105,516	1,121,902	**—**	—

29. LONG-TERM LIABILITIES

	Group		Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Long-term bank borrowings (a)	**1,326,145**	548,007	**424,800**	300,000
Other long-term loans (b)	**39,250**	34,008	**—**	—
Obligations under finance leases (c)	**12,768**	9,062	**—**	—
	1,378,163	591,077	**424,800**	300,000
Current portion of long-term liabilities	**(204,261)**	(127,226)	**114,960**	—
	1,173,902	463,851	**309,840**	300,000

Notes:

(a) Long-term bank borrowings:

	Group		Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Repayable				
- within one year				
- secured	**7,553**	10,263	**—**	—
- unsecured	**162,684**	79,201	**114,960**	—
- in the second year				
- secured	**6,570**	7,499	**—**	—
- unsecured	**291,121**	212,361	**272,400**	90,000
- in the third to fifth year				
- secured	**9,347**	14,286	**—**	—
- unsecured	**848,623**	222,936	**37,440**	210,000
- after the fifth year				
- secured	**247**	1,461	**—**	—
- unsecured	**—**	—	**—**	—
	1,326,145	548,007	**424,800**	300,000
Current portion included in current liabilities	**(170,237)**	(89,464)	**(114,960)**	—
	1,155,908	458,543	**309,840**	300,000

29. LONG-TERM LIABILITIES *(Cont'd)*

Notes: (Cont'd)

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

The carrying amount of the total bank borrowings are denominated in the following currencies:

	Group		Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Hong Kong dollars	**639,650**	688,803	**300,000**	300,000
US dollars	**329,284**	109,057	**124,800**	—
Euro dollars	**1,350,095**	756,327	**—**	—
Others	**112,632**	115,722	**—**	—
	2,431,661	1,669,909	**424,800**	300,000

(i) In March 2004, a subsidiary entered into a syndicated loan agreement with banks for a three-year transferable loan facility amounting to $120 million. The syndicated loan carries interest at commercial lending rates, is guaranteed by certain subsidiaries.

(ii) On 28th January, 2005, the Company entered into a syndicated loan agreement with banks for a three-year revolving credit and term loan facility amounting to $300 million. The proceeds of this syndicated loan were used exclusively to refinance the Company's indebtedness under a syndicated loan obtained in September 2003 and to finance the Group's general working capital requirements.

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

(iii) On 8th June, 2005, the Company's wholly-owned subsidiary entered into a loan agreement with a syndicate of banks in respect of a EUR60,000,000 loan facility ("EUR60 Million Loan Facility"). The proceeds of the EUR60 Million Loan Facility would be used exclusively to refinance the acquisitions of the Salamander trademark, Salamander leather and footwear businesses in Europe (except Germany) and Salamander retail shops operations in Germany and to finance the Company's general working capital requirements. The EUR60 Million Loan Facility should be repaid in full on or before 7th June, 2010.

(iv) On 31st August, 2005, the Company entered into a loan agreement with a syndicate of banks in respect of a US$16,000,000 loan facility ("US$16 Million Loan Facility"). The proceeds of the US$16 Million Loan Facility would be used exclusively for general corporate funding of the Group. The US$16 Million Loan Facility should be repaid in full on or before 31st July, 2008.

(v) On 8th February, 2006 the Company's wholly-owned subsidiary entered into a loan agreement with a syndicate of banks in respect of a EUR20,000,000 loan facility ("EUR20 Million Loan Facility"). The proceeds of the EUR20 Million Loan Facility would be used exclusively to refinance the acquisitions of the Salamander Trademark, Salamander Leather and Footwear Businesses in Europe (except Germany) and Salamander Retail Shops operations in Germany and to finance the Company's general working capital requirements. The EUR20 Million Loan Facility should be repaid in full on or before 10th February, 2011.

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

At 31st May, 2006, long-term bank borrowings not wholly repayable within five years of approximately $15,316,000 (2005: $17,030,000) were repayable by instalments.

29. LONG-TERM LIABILITIES *(Cont'd)*

Notes: (Cont'd)

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

	Group 2006 $'000	2005 $'000
Repayable		
- within one year	**29,538**	28,996
- in the second year	**2,951**	310
- in the third to fifth year	**3,243**	1,076
- after the fifth year	**3,518**	3,626
	39,250	34,008
Current portion included in current liabilities	**(29,538)**	(28,996)
	9,712	5,012

At 31st May, 2006, other loans not wholly repayable within five years of approximately $4,131,000 (2005: $5,726,000) were repayable by instalments.

(c) Obligations under finance leases:

	Group 2006 $'000	2005 $'000
Lease payments payable		
- within one year	**5,122**	8,879
- in the second year	**4,644**	276
- in the third to fifth year	**4,127**	28
	13,893	9,183
Future finance charges on finance leases	**(1,125)**	(121)
Present value of finance lease liabilities	**12,768**	9,062

The present value of finance lease liabilities was as follows:

	Group 2006 $'000	2005 $'000
Repayable		
- within one year	**4,486**	8,766
- in the second year	**4,276**	269
- in the third to fifth year	**4,006**	27
Present value of finance lease liabilities	**12,768**	9,062
Current portion included in current liabilities	**(4,486)**	(8,766)
	8,282	296

30. CONVERTIBLE BONDS

	Company $'000	Subsidiary $'000	Group $'000
At 1st June, 2004, as previously reported	159,900	66,300	226,200
Effect of adopting HKAS 32			
- reclassification to equity portion	(50,032)	(36,174)	(86,206)
At 1st June, 2004, as restated	109,868	30,126	139,994
Issue during the year - liability portion	—	17,721	17,721
Converted to ordinary shares - liability portion	(99,456)	(47,847)	(147,303)
Repayment of conventible bonds	(47)	—	(47)
At 1st June, 2005	10,365	—	10,365
Issue during the year - liability portion	—	16,197	16,197
Converted to ordinary shares - liability portion	(10,351)	(16,197)	(26,548)
Repayment of conventible bonds	(14)	—	(14)
As at 31st May, 2006	—	—	—
As at 31st May, 2005			
Current portion included in current liabilities	10,365	—	10,365
As at 31st May, 2006			
Current portion included in current liabilities	—	—	—

(a) Convertible bonds - Company

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

On 27th February, 2003 (the "First Closing Date"), the Company issued convertible bonds (the "Tranche 1 Bonds A") of US$10 million (equivalent to approximately $78 million) to CSFB. 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 CSFB the following:

- An additional subscription right exercisable at any time commencing on the First Closing Date until the First Maturity Date, to subscribe for approximately 9 million ordinary shares (the "Tranche 1 Bonds Subscription Shares") in the Company at a subscription price of $1.6184 per share.

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

30. CONVERTIBLE BONDS *(Cont'd)*

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

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

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

(ii) Under the Subscription Agreement A, CSFB also granted an option to the Company to require CSFB to subscribe for convertible bonds (the "Tranche 2 Bonds 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 CSFB. 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 CSFB, exercisable at any time commencing on the Second Closing Date until the First Maturity Date, to subscribe for approximately 7 million ordinary shares (the "Tranche 2 Bonds Subscription Shares") in the Company at a subscription price of $2.0604 per share.

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

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

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

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

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

(v) During the year ended 31st May, 2006, convertible bonds amounting to US$3.0 million (equivalent to approximately $23.4 million) (2005: US$17.5 million, equivalent to approximately $136.5 million) held by CSFB were converted into 14,524,000 (2005: 99,456,000) ordinary shares in the Company.

As at 31st May, 2006 and 21st September, 2006 (the date of this Annual Report), the Company had no convertible bonds outstanding.

30. CONVERTIBLE BONDS *(Cont'd)*

(b) Convertible bonds - Subsidiary

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

On 26th February, 2004, Egana Jewellery issued convertible bonds (the "Tranche 1 Bonds B") of US$10 million (equivalent to approximately $78 million) to Merrill Lynch. Tranche 1 Bonds B amounting to US$1.5 million (equivalent to $11.7 million) were converted into ordinary shares of Egana Jewellery during the year ended 31st May, 2004, with the remaining balance of US$8.5 million (equivalent to $66.3 million) converted during the year ended 31st May, 2005.

On 4th February, 2005, Egana Jewellery issued convertible bonds (the "Tranche 3a Bonds B") of US$5 million (equivalent to approximately $39 million) to Merrill Lynch. During the year ended 31st May, 2005, Merrill Lynch has fully converted the Tranche 3a Bonds B into ordinary shares of Egana Jewellery.

In accordance with the terms and conditions of the subscription letter dated 10th February, 2004, Egana Jewellery granted Merrill Lynch subscription rights to subscribe for approximately 5.5 million and 4.3 million ordinary shares of Egana Jewellery in respect of the Tranche 1 Bonds B and Tranche 3a Bonds B respectively.

On 1st August, 2005, Egana Jewellery issued the Tranche 4a Bonds B of US$5 million (equivalent to approximately $39 million) to Merrill Lynch and granted subscription rights to subscribe for approximately 4.6 million ordinary shares in Egana Jewellery under the terms and conditions of the Subscription Agreement C. All such bonds were converted into 37,388,369 ordinary shares of Egana Jewellery during the year ended 31st May, 2006.

On 24th May 2006, Egana Jewellery entered into a letter agreement (the "Letter Agreement") with Merrill Lynch pursuant to which Merrill Lynch agreed to waive its rights, benefits and claims in relation to the subscription rights attached to the bonds being the Tranche 1 Bonds B, Tranche 1a Bonds B, Tranche 2 Bonds B, Tranche 3 Bonds B and Tranche 4 Bonds B remaining unexercised as of date of the Letter Agreement for a consideration of $2,950,000.

As at 31st May, 2006 and 21 September, 2006 (the date of this Annual Report), Egana Jewellery had no convertible bonds outstanding.

31. PENSIONS AND OTHER POST RETIREMENT OBLIGATIONS

	Group 2006 $'000	2005 $'000
Obligations on:		
- pensions - defined contribution plan (a)	**—**	—
- pensions - defined benefits plans (b)	**226,470**	230,652
	226,470	230,652

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, 2006, the Group's employer's contribution to the scheme was approximately $3,817,000 (2005: $3,310,000). The assets of the scheme are held separately from those of the Group and are managed by independent professional fund managers.

Forfeited contributions totalling $440,000 (2005: $455,000) 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, 2006, 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, 2006 by qualified actuaries, Aon Jauch & Hübner, Dr. Dr. Heissmann GmbH, Allianz Lebensversicherungs-AG, IDUNA Vereinigte Lebensversicherung aG and Kern Mauch & Kollegen GmbH, using the projected unit credit method. The main actuarial assumptions were as follows:

Discount rate	4.25%-6%
Expected rate of future salary increases	1.5%-2%
Expected future pension increases	1%-1.5%

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

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

	Group	
	2006	2005
	$'000	$'000
Present value of unfunded obligations	**227,371**	228,926
Unrecognised actuarial gains/(losses)	**(901)**	1,726
Liability in the balance sheet	**226,470**	230,652

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

	2006	2005
	$'000	$'000
Current service cost	**3,819**	796
Interest cost	**9,061**	11,607
Net actuarial (gain)/losses recognised	**(2,028)**	(4,741)
Amount in relation to plan curtailments or settlements	**(1,858)**	—
Total included in staff costs *(Note 13)*	**8,994**	7,662

All the charges were included in administrative expenses.

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

	2006	2005
	$'000	$'000
Beginning of year	**230,652**	216,755
Exchange adjustments	**3,912**	2,650
Liabilities acquired on acquisition of subsidiaries	**—**	17,523
Expenses recognised in the profit and loss account	**8,994**	7,662
Benefits paid	**(17,088)**	(13,938)
End of year	**226,470**	230,652
Current portion included in current liabilities	**(15,470)**	(14,724)
	211,000	215,928

32. SHARE CAPITAL

Share capital comprised:

	2006	2005	2006	2005
	Number of ordinary shares		$'000	$'000
Authorised:	**2,000,000,000**	2,000,000,000	**2,000,000**	2,000,000
Issued and fully paid:				
Ordinary shares:				
Beginning of year	**1,271,286,051**	1,171,830,051	**1,271,286**	1,171,829
Issued upon conversion of convertible bonds (a)	**14,524,000**	99,456,000	**14,524**	99,457
End of year	**1,285,810,051**	1,271,286,051	**1,285,810**	1,271,286

Notes:

(a) During the year, the Company issued a total of 14,524,000 new ordinary shares of $1 each upon the conversion of convertible bonds of $23,400,000 as set out in note 30.

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	
	2006	2005
	'000	'000
Beginning of year	**44,979**	45,229
Lapsed on expiry	**(160)**	(250)
End of year	**44,819**	44,979

No share options were granted (2005: Nil), exercised (2005: Nil) or cancelled (2005: Nil) during the year.

160,000 (2005: 250,000) share options lapsed during the year.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

32. SHARE CAPITAL *(Cont'd)*

(b) At 31st May, 2006, details of outstanding share options were as follows:

		2006			2005		
Date granted	Expiry date	**Exercise price $**	**No. of options**	**No. of options vested**	Exercise price $	No. of options	No. of options vested
Directors							
23/03/1997	23/03/2007	**3.45**	**144,800**	**—**	3.45	144,800	—
09/01/2000	09/01/2010	**2.11**	**12,500,000**	**—**	2.11	12,500,000	—
17/01/2000	17/01/2010	**2.11**	**500,000**	**—**	2.11	500,000	—
			13,144,800	**—**		13,144,800	—
Employees under continuous contracts (excluding Directors)							
28/01/1997	28/01/2007	**1.28**	**99,000**	**—**	1.28	99,000	—
15/03/1997 to 27/09/1997	15/03/2007 to 27/09/2007	**3.45**	**815,400**	**—**	3.45	975,400	—
07/01/2000 to 25/02/2000	07/01/2010 to 25/02/2010	**2.11**	**30,760,000**	**—**	2.11	30,760,000	—
			31,674,400	**—**		31,834,400	—
			44,819,200	**—**		44,979,200	—

33. RESERVES

Group

Movements of reserves for the Group for the year ended 31st May, 2006 were as follows:

	Attributable to equity holders of the Company												
	Share pemium account $'000	Convertible bonds equity portion $'000	Exchange translation reserve $'000	Retained profits $'000	Revaluation reserve $'000	Available-for-sale financial assets revaluation reserve $'000	Capital Redemption reserve $'000	Goodwill $'000	Legal reserve $'000	Other reserves $'000	Total $'000	Minority interests $'000	Total $'000
Beginning of year, as previously reported	363,311	13,035	(205,154)	624,037	2,438	–	40,801	(454,108)	270	580	385,210	276,181	661,391
Effect of adopting HKAS 39	–	–	–	–	(2,438)	2,438	–	–	–	–	–	–	–
Beginning of year, as restated	363,311	13,035	(205,154)	624,037	–	2,438	40,801	(454,108)	270	580	385,210	276,181	661,391
Premium arising from conversion of convertible bonds	8,862	(13,035)	–	–	–	–	–	–	–	–	(4,173)	–	(4,173)
Expenses incurred in connection with issue of shares	(20)	–	–	–	–	–	–	–	–	–	(20)	–	(20)
Issuance of convertible bonds of a subsidiary	–	22,803	–	–	–	–	–	–	–	–	22,803	–	22,803
Conversion of convertible bonds of a subsidiary	–	(22,803)	–	(10,964)	–	–	–	–	–	–	(33,767)	47,006	13,239
Acquisition of additional interests in a subsidiary	–	–	–	1,783	–	–	–	–	–	–	1,783	(1,783)	–
Disposal of listed available-for-sale financial assets	–	–	–	–	–	(129)	–	–	–	–	(129)	–	(129)
Disposal of unlisted available-for-sale financial assets	–	–	–	–	–	(11,324)	–	–	–	–	(11,324)	–	(11,324)
Reserve attributable to minority interests upon disposal of available-for-sale financial assets	–	–	–	–	–	4,176	–	–	–	–	4,176	(4,176)	–
Share of exchange translation reserve of an associated company	–	–	325	–	–	–	–	–	–	–	325	–	325
Revaluation of listed available-for-sale financial assets	–	–	–	–	–	(16,714)	–	–	–	–	(16,714)	–	(16,714)
Minority share of revaluation of listed available-for-sale financial assets	–	–	–	–	–	5,313	–	–	–	–	5,313	(5,313)	–
Profit for the year ended 31st May, 2006	–	–	–	304,957	–	–	–	–	–	–	304,957	34,265	339,222
Interim dividend paid	–	–	–	(36,003)	–	–	–	–	–	–	(36,003)	–	(36,003)
Final dividend paid	–	–	–	(44,679)	–	–	–	–	–	–	(44,679)	–	(44,679)
Proposed final dividend	–	–	–	–	–	–	–	–	–	–	–	–	–
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	–	–	(9,167)	(9,167)
Exchange difference arising from translation of overseas subsidiaries' and associated companies' financial statements	–	–	9,515	–	–	–	–	–	–	–	9,515	478	9,993
End of year	372,153	–	(195,314)	839,131	–	(16,240)	40,801	(454,108)	270	580	587,273	337,491	924,764
Representing:													
2006 Final dividend proposed				64,291									
Others				774,840									
Retained profits at end of year				839,131									

33. RESERVES *(Cont'd)*

Group

Movements of reserves for the Group for the year ended 31st May, 2005 (Restated) were as follows:

	Attributable to equity holder of the Company											
	Share pemium account $'000	Convertible bonds equity portion $'000	Exchange translation reserve $'000	Retained profits $'000	Revaluation reserve $'000	Capital Redemption reserve $'000	Goodwill $'000	Legal reserve $'000	Other reserves $'000	Total $'000	Minority interests $'000	Total $'000
Beginning of year, as previously reported	345,958	–	(197,276)	517,226	7,948	40,801	(454,108)	270	580	261,399	–	261,399
Effect of adopting HKAS 1	–	–	–	–	–	–	–	–	–	–	150,004	150,004
Effect of adopting HKAS 17	–	–	–	2,178	(3,298)	–	–	–	–	(1,120)	637	(483)
Effect of adopting HKAS 27	–	–	–	(1,456)	–	–	–	–	–	(1,456)	–	(1,456)
Effect of adopting HKAS 32	–	76,176	–	–	–	–	–	–	–	76,176	10,030	86,206
Effect of adopting HKFRS 3	–	–	–	42,199	–	–	–	–	–	42,199	–	42,199
Beginning of year, as restated	345,958	76,176	(197,276)	560,147	4,650	40,801	(454,108)	270	580	377,198	160,671	537,869
Premium arising from conversion of convertible bonds	17,421	(36,997)	–	–	–	–	–	–	–	(19,576)	–	(19,576)
Expenses incurred in connection with issue of shares	(68)	–	–	–	–	–	–	–	–	(68)	–	(68)
Issuance of convertible bonds of a subsidiary	–	21,279	–	–	–	–	–	–	–	21,279	–	21,279
Conversion of convertible bonds of a subsidiary	–	(47,423)	–	(30,549)	–	–	–	–	–	(77,972)	125,795	47,823
Acquisition of additional interests in subsidiaries	–	–	–	(81,093)	–	–	–	–	–	(81,093)	(26,049)	(107,142)
Partial disposal of interest in a subsidiary	–	–	–	3,943	–	–	–	–	–	3,943	(1,427)	2,516
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	3,780	3,780
Disposal of listed non-trading securities	–	–	–	–	(16,729)	–	–	–	–	(16,729)	–	(16,729)
Share of exchange translation reserve of an associated company	–	–	3	–	–	–	–	–	–	3	–	3
Revaluation of listed non-trading securities	–	–	–	–	9,427	–	–	–	–	9,427	2,198	11,625
Revaluation of unlisted non-trading securities	–	–	–	–	5,090	–	–	–	–	5,090	(395)	4,695
Disposal of subsidiaries	–	–	(514)	–	–	–	–	–	–	(514)	–	(514)
Profit for the year ended 31st May, 2005	–	–	–	232,265	–	–	–	–	–	232,265	26,272	258,537
Interim dividend paid	–	–	–	(30,830)	–	–	–	–	–	(30,830)	–	(30,830)
Final dividend paid	–	–	–	(29,846)	–	–	–	–	–	(29,846)	–	(29,846)
Proposed final dividend	–	–	–	–	–	–	–	–	–	–	–	–
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	–	(15,082)	(15,082)
Exchange difference arising from translation of overseas subsidiaries' and associated companies' financial statements	–	–	(7,367)	–	–	–	–	–	–	(7,367)	418	(6,949)
End of year	363,311	13,035	(205,154)	624,037	2,438	40,801	(454,108)	270	580	385,210	276,181	661,391

	Retained profits $'000
Representing:	
2005 Final dividend proposed	44,595
Others	579,442
Retained profits at end of year	624,037

33. RESERVES *(Cont'd)*

Company

	Year ended 31st May, 2006							
	Share premium account $'000	Convertible bonds equity portion $'000	Retained profits $'000	Revaluation reserve $'000	Available-for-sale financial assets revaluation reserve $'000	Capital redemption reserve $'000	Other reserve $'000	Total $'000
Beginning of year, as previously reported	363,311	13,035	47,741	(2,263)	–	40,801	457	463,082
Effect of adopting HKAS39	–	–	–	2,263	(2,263)	–	–	–
Beginning of year, as restated	363,311	13,035	47,741	–	(2,263)	40,801	457	463,082
Share premium arising from conversion of convertible bonds	8,862	(13,035)	–	–	–	–	–	(4,173)
Expenses incurred in connection with issue of shares	(20)	–	–	–	–	–	–	(20)
Revaluation of listed available-for-sale financial assets	–	–	–	–	280	–	–	280
Disposal of unlisted available-for-sale financial assets	–	–	–	–	336	–	–	336
Profit for the year	–	–	102,055	–	–	–	–	102,055
Dividend paid	–	–	(80,681)	–	–	–	–	(80,681)
End of year	372,153	–	69,115	–	(1,647)	40,801	457	480,879

Representing:	
2006 Final dividend proposed	64,291
Other	4,824
Retained profits, end of year	69,115

33. RESERVES *(Cont'd)*

Company *(Cont'd)*

	Year ended 31st May, 2005 (Restated)						
	Share premium account	**Convertible bonds equity portion**	**Retained profits**	**Revaluation reserve**	**Capital redemption reserve**	**Other reserve**	**Total**
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Beginning of year, as previously reported	345,958	—	34,502	(2,742)	40,801	457	418,976
Effect of adopting HKAS32	—	50,032	—	—	—	—	50,032
Beginning of year, as restated	345,958	50,032	34,502	(2,742)	40,801	457	469,008
Share premium arising from conversion of convertible bonds	17,421	(36,997)	—	—	—	—	(19,576)
Expenses incurred in connection with issue of shares	(68)	—	—	—	—	—	(68)
Revaluation of listed non-trading securities	—	—	—	(986)	—	—	(986)
Revaluation of unlisted non-trading securities	—	—	—	1,465	—	—	1,465
Profit for the year	—	—	73,915	—	—	—	73,915
Dividends paid	—	—	(60,676)	—	—	—	(60,676)
End of year	363,311	13,035	47,741	(2,263)	40,801	457	463,082
Representing:							
2005 Final dividend proposed			44,595				
Others			3,146				
Retained profits, end of year			47,741				

34. CONSOLIDATED CASH FLOW STATEMENT

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

	2006 $'000	2005 (Restated) $'000
Profit before share of profit/(loss) of associated companies	**334,782**	246,250
Depreciation of fixed assets	**73,712**	52,152
Loss/(Gain) on disposal of fixed assets	**2,788**	(644)
Gain on disposal of intangible assets	**(15,693)**	(176)
Amortisation of intangible assets, net	**18,756**	25,479
Amortisation of leasehold land	**676**	661
Gain on acquisition of subsidiaries	**—**	(31,247)
Loss on disposal of subsidiaries	**—**	3,288
Loss on disposal of listed available-for-sale financial assets	**30**	—
Loss on disposal of unlisted available-for-sale financial assets	**4,498**	—
Impairment loss on available-for-sale financial assets	**3**	—
Fair value losses on investment held for trading	**10**	—
Gain on derivative financial instruments, net	**(8,205)**	—
Gain on interest rate swaps	**(9,090)**	—
Dividend income	**(2,168)**	(1,753)
Gain on revaluation of trading securities	**—**	(12)
Gain on disposal of investments in non-trading securities, net	**—**	(26,988)
Redemption premium received on maturity of equity-linked notes	**(3,220)**	(14,416)
Interest income	**(54,457)**	(46,858)
Interest expense	**120,305**	66,427
Provision for inventory	**25,966**	12,389
Write-back of provision for inventory	**—**	(39,401)
Bad debt expense	**14,739**	11,838
Write-back of provision for bad debts	**(2,375)**	(383)
Operating profit before working capital changes	**501,057**	256,606
Increase in inventories	**(124,375)**	(182,716)
(Increase)/Decrease in accounts receivable	**(1,016,110)**	356,622
Increase in deposits, prepayments and other receivables	**(41,775)**	(22,726)
Increase in due from associated companies	**(8,406)**	(1,878)
Increase/(Decrease) in accounts payable, accruals and other payables	**455,035**	(17,949)
Decrease in provisions	**(6,609)**	(18,631)
Increase in bills payable	**82,985**	24,784
Decrease in provision for pensions and other post retirement obligations	**(8,094)**	(6,276)
Increase in due to associated companies	**1,427**	3,412
(Decrease)/Increase in due to Directors	**(439)**	470
Increase in derivative financial instruments assets	**(16,463)**	—
Increase in derivative financial instruments liabilities	**39,587**	—
Exchange adjustments	**(7,488)**	5,795
Net cash (outflow)/inflow generated from operations	**(149,668)**	397,513

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

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

	Year ended 31st May, 2006									
	Share capital (including share premium) $'000	Short-term bank borrowings $'000	Dividend payable $'000	Long-term bank borrowings $'000	Other long-term loans $'000	Loan from a minority shareholder $'000	Finance leases obligations $'000	Convertible bonds $'000	Total $'000	2005 Total $'000
Beginning of year	1,634,597	1,121,902	–	548,007	34,008	1,324	9,062	23,400	3,372,300	2,972,622
Effect of Adopting HKAS32	–	–	–	–	–	–	–	(13,035)	(13,035)	–
Balance at 1st June, 2005 (restated)	1,634,597	1,121,902	–	548,007	34,008	1,324	9,062	10,365	3,359,265	2,972,622
(Repayment of)/proceeds from borrowings, net	–	(23,751)	–	743,967	5,121	–	(10,304)	(14)	715,019	358,680
Conversion of convertible bonds	23,386	–	–	–	–	–	–	(49,351)	(25,965)	(105,300)
Payment of expenses incurred for issue of shares	(20)	–	–	–	–	–	–	–	(20)	(68)
Waiver of subscription rights & option in respect of convertible bonds	–	–	–	–	–	–	–	–	–	(19,575)
Proceeds from issuance of convertible bonds	–	–	–	–	–	–	–	39,000	39,000	39,000
Dividends paid	–	–	(80,681)	–	–	–	–	–	(80,681)	(60,676)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	137,931
Disposal of interest in subsidiary	–	–	–	–	–	–	–	–	–	(9,910)
Dividend declared	–	–	80,681	–	–	–	–	–	80,681	60,676
Inception of finance leases	–	–	–	–	–	–	13,860	–	13,860	–
Exchange adjustments	–	7,365	–	34,171	121	25	150	–	41,832	(1,080)
End of year	1,657,963	1,105,516	–	1,326,145	39,250	1,349	12,768	–	4,142,991	3,372,300

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

(c) Acquisition of subsidiaries:

In December 2005, the Group acquired 84.84% equity interest in DK Digital GmbH ("DK"). DK contributed aggregate revenues of approximately $153,074,000 and aggregate net loss of approximately $22,555,000 since acquisition.

The aggregate revenue and aggregate net loss of DK as though the acquisition had occurred at 1st June, 2005 are approximately $288,339,000 and $22,167,000 respectively.

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

	2006	2005
	$'000	$'000
Purchase consideration:		
Cash consideration	**6,840**	115,416
Direct expenses relating to the acquisitions	**69**	401
Other receivable	**29,500**	—
Interest in available-for-sale financial assets	**23,603**	—
Total purchase consideration	**60,012**	115,817
Less: fair value of net (liabilities)/assets acquired	**(60,012)**	147,064
Goodwill/(gain) on acquisition	**120,024**	(31,247)

The goodwill is attributable to the development potential of business acquired.

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

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

	2006	2005
	$'000	$'000
Net assets acquired:		
Fixed assets	**2,490**	128,752
Intangible assets	**250**	85,754
Investments in non-trading securities	**—**	3,609
Deferred tax assets	**—**	14,979
Inventories	**30,720**	139,972
Accounts receivable	**38,363**	6,947
Deposits, prepayments and other receivables	**30,528**	57,025
Tax recoverable	**—**	2,058
Cash and bank balances	**4,265**	37,795
Accounts payable, accruals and other payables	**(159,678)**	(167,334)
Provisions	**(6,703)**	—
Short-term bank borrowings	**—**	(132,704)
Long-term bank borrowings	**—**	(3,863)
Loan from a minority shareholder	**—**	(1,364)
Deferred tax liabilities	**—**	(3,259)
Minority interests	**—**	(3,781)
Tax payable	**(247)**	—
Pensions and other post retirement obligations	**—**	(17,522)
Share of net assets at date of acquisition	**(60,012)**	147,064
Goodwill/(gain) on acquisition of subsidiaries	**120,024**	(31,247)
Consideration	**60,012**	115,817
Satisfied by:		
Cash consideration	**6,840**	115,817
Paid	**2,280**	58,361
Payable	**4,560**	57,456
	6,840	115,817

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

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

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

Analysis of net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries:

	2006 **$'000**	2005 $'000
Cash consideration paid	**(2,280)**	(58,361)
Direct expenses relating to the acquisitions	**(70)**	—
Cash and bank balances acquired	**4,265**	37,795
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	**1,915**	(20,566)

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

(i) Disposal of subsidiaries:

	2006 **$'000**	2005 $'000
Net assets disposed:		
Fixed assets	**—**	114
Intangible assets	**—**	1,181
Inventories	**—**	1,537
Deposits, prepayments and other receivables	**—**	590
Cash and bank balances	**—**	862
Accounts payable, accruals and other payables	**—**	(451)
Taxation payable	**—**	(31)
	—	3,802
Loss on disposal	**—**	(3,288)
Release of translation reserves	**—**	(514)
Consideration	**—**	—
Satisfied by:		
Cash	**—**	—

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

	2006 **$'000**	2005 $'000
Cash consideration	**—**	—
Cash and bank balances disposed	**—**	(862)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	**—**	(862)

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

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

(ii) Partial disposal of interest in a subsidiary:

	2006 **$'000**	2005 $'000
Net assets disposed:		
Fixed assets	–	796
Intangible assets	–	6
Inventories	–	2,868
Accounts receivable	–	9,721
Deposits, prepayments and other receivables	–	2,424
Short-term investments	–	7,500
Cash and bank balances	–	359
Accounts payable, accruals and other payables		(9,497)
Provisions	–	(240)
Short-term bank borrowings	–	(9,910)
Taxation payable	–	(161)
Minority interests	–	(1,427)
	–	2,439
Interest in an associated company	–	(951)
Gain on disposal	–	3,943
Consideration	–	5,431
Satisfied by:		
Cash	–	5,431

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

	2006 **$'000**	2005 $'000
Cash consideration	–	5,431
Cash and bank balances disposed	–	(359)
Net inflow of cash and cash equivalents in respect of the partial disposal of interest in a subsidiary	–	5,072

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

(e) Analysis of cash and cash equivalents:

	Group	
	2006	2005
	$'000	$'000
Cash and bank balances	**398,957**	336,208
Promissory notes with maturity within three months*	**986,294**	476,687
	1,385,251	812,895

* *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, 2006, all the above promissory notes receivable were due for repayment in the period from June to August 2006 of which approximately $693,675,000 was rolled over upon maturity for another one to three months.*

35. CONTINGENT LIABILITIES

At 31st May, 2006, contingent liabilities not provided for by the Group and the Company were summarised below:

	Group		Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Discounted bills with recourse	**—**	180,141	**—**	—
Guarantees given to financial and other institutions in respect of facilities granted to subsidiaries *(Note 19(c))*	**—**	—	**12,741,349**	3,881,015
Guarantees given to financial institutions in respect of facilities granted to an associated company	**9,880**	—	**9,880**	—
Guarantees given to landlords in respect of rental obligations of subsidiaries	**1,044**	819	**31,200**	—
Guarantees given to customs in respect of default in customs obligations of subsidiaries	**297**	293	**—**	—

In addition, the Company guaranteed the payments and performance by several subsidiaries under certain license agreements pursuant to which the subsidiaries were licensees (Note 19(b)).

36. BANKING FACILITIES

(a) At 31st May, 2006, 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 19(c)).

(b) At 31st May, 2006, certain land and buildings (Note 15(c)), leasehold rights (Note 17(c)) and inventories (Note 22) were pledged as security for banking facilities granted to certain German subsidiaries of the Group.

37. COMMITMENTS

(a) Commitments under operating leases

At 31st May, 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases payable as follows:

	2006		2005	
	Leasehold land and buildings $'000	**Furniture and equipment $'000**	Leasehold land and buildings $'000	Furniture and equipment $'000
Payable:				
– Not later than one year	**272,562**	**18,465**	265,787	17,969
– Later than one year and not later than five years	**742,034**	**16,600**	824,218	16,677
– Later than five years	**620,881**	**—**	496,705	241
	1,635,477	**35,065**	1,586,710	34,887

(b) Commitments under license agreements

At 31st May, 2006, the Group had future aggregate minimum royalty payments under license agreements payable as follows:

	2006 $'000	2005 $'000
Payable:		
– Not later than one year	**55,891**	42,999
– Later than one year and not later than five years	**166,459**	164,243
– Later than five years	**170,277**	2,145
	392,627	209,387

(c) 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 year up to 2007. At 31st May, 2006, total outstanding commitment amounted to approximately $591,023,000 (2005: $162,966,000).

Certain other subsidiaries of the Group entered into purchase agreements with third party companies and agreed to purchase footwear products from these third party companies during the year up to 2007. At 31st May, 2006, total outstanding commitment amounted to approximately $426,759,000 (2005: $407,402,000).

Save as disclosed above, neither the Group nor the Company had any significant commitments at 31st May, 2006.

38. 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 $Nil (2005: $2,305,000) (inclusive of disbursements) to International Taxation Advisory Services Limited, of which Mr. David Wai Kwong WONG, a Director of the Company, was a director, for taxation and corporate advisory services provided. The Directors consider that the fees were paid according to prices and conditions similar to those offered by other external consultants of the Group.

(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:

	2006	2005
	$'000	$'000
Sales of goods		
Amaretta	**—**	276
Dominique	**22,201**	13,688
	22,201	13,964
Purchase of goods		
Amaretta	**78**	488
Tonic	**26,024**	26,822
JOOP!	**—**	247
Kuraray Co. Limited and/or its subsidiaries ("Kuraray")	**26,839**	26,636
	52,941	54,193
Interest income		
Dominique	**—**	88
Interest expenses		
Amaretta	**121**	126
Tonic	**460**	154
Rossolini Limited ("Rossolini")	**7**	7
	588	287
Management fee income		
Amaretta	**1,629**	1,974
Rossolini	**5**	—
	1,634	1,974
Rental income		
Amaretta	**1,748**	—

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

(a) Related party transactions *(Cont'd)*

	2006 $'000	2005 $'000
Advertising contribution		
Dominique	**52**	4,068
Royalties expenses		
JOOP!	**13,023**	12,134
Amount due from		
Dominique	**19,908**	11,528
Amount due to		
Amaretta	**2,751**	2,507
Tonic	**2,902**	154
JOOP!	**699**	1,942
Rossolini	**97**	90
	6,449	4,693

(iii) During the year, compensation to key management of the Group is analysed as below:

	2006 $'000	2005 $'000
Salaries and other short-term employees benefits	**21,853**	19,633
Termination benefits	**126**	95
Post-employment benefits	**1,260**	1,599
	23,239	21,327

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

(b) Connected transactions

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

	2006 $'000	2005 $'000
Lorica Sud s.r.l:		
Purchases from Kuraray[1]	**26,839**	26,636

(1) 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, 2006, the amounts due from/(to) associated companies were unsecured, non-interest bearing and repayable within one year except for amounts of approximately $98,450 due to associated companies and an amount of approximately $1,330 due from an associated company which bore interest at commercial lending rates.

(d) At 31st May, 2006, the amounts due to Directors were unsecured, non-interest bearing and repayable within one year.

(e) At 31st May, 2006, loan from a minority shareholder was unsecured, bore interest at commercial lending rates and repayable within one year.

39. SUBSEQUENT EVENTS

(a) On 11th September, 2006, the independent shareholders of EJPL approved the proposal from EganaGoldpfeil (Holdings) Limited ("EganaGoldpfeil") for the privatisation of EJPL. Subject to the sanction of the privatization proposal by the court, EJPL would become a wholly-owned subsidiary of EganaGoldpfeil and it is expected that EJPL will be delisted from the Stock Exchange effective 24th October, 2006.

(b) On 16th August, 2006, Peninsula International Limited ("PIL") (the investment holding company of Mr. Hans-Joerg SEEBERGER, Executive Chairman and Founder of EganaGoldpfeil Group) and VDCI SA (an indirect wholly-owned subsidiary of Compagnie Financière Richemont SA) entered into an agreement to jointly participate in an investment holding company (Joint Asset) on a 70:30 basis pursuant to which Joint Asset holds 33.33% shareholding interests in EganaGoldpfeil (without taking into account the issue of EganaGoldpfeil shares under the privatization proposal). Compagnie Financière Richemont SA is one of the world's leading luxury goods groups, with particular strength in jewellery, luxury watches and writing instruments.

40. APPROVAL OF THE ACCOUNTS

The accounts were approved by the Board of Directors on 21st September, 2006.