(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. ORGANISATION AND OPERATIONS

Egana Jewellery & Pearls Limited (the "Company") was incorporated in the Cayman Islands. Its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 27th July, 1998.

The Directors consider EganaGoldpfeil (Holdings) Limited ("EganaGoldpfeil"), a limited company incorporated in the Cayman Islands and whose shares are listed on the Stock Exchange, to be the ultimate holding company.

The Company is an investment holding company. Its subsidiaries are principally engaged in (i) design, manufacturing, distribution and trading of jewellery products, (ii) licensing or assignment of brandnames to third parties for the design, manufacturing and/or distribution of jewellery and consumer products other than timepieces, and (iii) holding of investments.

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	Transitional 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 policies 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 comparative information adjusted for the amounts relating to prior year. As a result, the opening retained profits as at 1st June, 2005 is increased by approximately HK$0.5 million. The adoption of HKAS 17 has no material impact on the Group's results for the current and prior years.

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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: Disclosure 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 an 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.

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.

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)

On 1st June, 2005, following the adoption of HKAS 39, the Group has re-designated "investments in non-trading securities" amounting to approximately $150,760,000 and "short-term investments" (including "investments in trading securities") amounting to approximately $113,000 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.

(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.

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

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

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

(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 expired, 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 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.

(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.

(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.

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

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

(iv) Share-based payments *(Cont'd)*

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)	Retrospective Adjustments HKAS 17	Retrospective Adjustments HKAS 27	As at 31st May, 2005 (restated)	Adjustments on 1st June, 2005 HKAS 39	As at 1st June, 2005 (restated)
	$'000	$'000	$'000	$'000	$'000	$'000
Fixed assets	44,041	(4,116)	–	39,925	–	39,925
Leasehold land	–	4,645	–	4,645	–	4,645
Intangible assets	114,965	–	–	114,965	–	114,965
Interest in an associated company	(58)	–	–	(58)	–	(58)
Investments in non-trading securities	150,760	–	–	150,760	(150,760)	–
Available-for-sale financial assets	–	–	–	–	150,760	150,760
Deferred tax assets	16,645	–	–	16,645	–	16,645
Inventories	269,493	–	–	269,493	–	269,493
Accounts receivable, net	85,367	–	–	85,367	–	85,367
Royalty deposit	7,406	–	–	7,406	–	7,406
Deposits, prepayments and other receivables	108,004	–	–	108,004	–	108,004
Due from fellow subsidiaries	97,628	–	–	97,628	–	97,628
Due from a related company	829	–	–	829	–	829
Investments held for trading	–	–	–	–	113	113
Short-term investments	113	–	–	113	(113)	–
Cash and cash equivalents	418,149	–	–	418,149	–	418,149
Accounts payable	(69,614)	–	–	(69,614)	–	(69,614)
Accruals and other payables	(58,646)	–	–	(58,646)	–	(58,646)
Bills payable	(64,514)	–	–	(64,514)	–	(64,514)
Short-term bank borrowings	(229,043)	–	–	(229,043)	–	(229,043)
Current portion of long-term bank borrowings	(54,776)	–	–	(54,776)	–	(54,776)
Current portion of other long-term liabilities	(692)	–	–	(692)	–	(692)
Due to fellow subsidiaries	(9,391)	–	–	(9,391)	–	(9,391)
Due to a related company	(1,942)	–	–	(1,942)	–	(1,942)
Due to Directors	(255)	–	–	(255)	–	(255)
Taxation payable	(1,026)	–	–	(1,026)	–	(1,026)
Long-term bank borrowings	(156,791)	–	–	(156,791)	–	(156,791)
Other long-term liabilities	(4,813)	–	–	(4,813)	–	(4,813)
Deferred tax liabilities	(1,874)	–	–	(1,874)	–	(1,874)
Total effects on assets and liabilities	659,965	529	–	660,494	–	660,494
Minority interests	(41)	–	41	–	–	–
	659,924	529	41	660,494	–	660,494

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)*

	As at 31st May, 2005 (previously reported)	Retrospective Adjustments HKAS 17	Retrospective Adjustments HKAS 27	As at 31st May, 2005 (restated)	Adjustments on 1st June, 2005 HKAS 39	As at 1st June, 2005 (restated)
	$'000	$'000	$'000	$'000	$'000	$'000
Share capital	206,582	–	–	206,582	–	206,582
Reserves	445,445	529	–	445,974	–	445,974
Proposed final dividend	7,897	–	–	7,897	–	7,897
Equity attributable to equity holders of the Company	659,924	529	–	660,453	–	660,453
Minority interest	–	–	41	41	–	41
Total effects on total equity	659,924	529	41	660,494	–	660,494

(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.

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

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

(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.

(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.

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

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

(iv) Foreign currencies *(Cont'd)*

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.

(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 $^1/_3$%
Motor vehicles	25%

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

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

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

(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.

(d) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of the 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 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 the 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.

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

(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 the 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.

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 goodwill reserve, has been credited to the opening balance of retained profits.

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

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

(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.

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%. 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.

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

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

(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; and (2) costs of acquiring the know-how of businesses which are amortised using the straight-line method over their estimated useful lives of fifteen 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.

(g) Financial instruments

(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).

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

(g) Financial instrument *(Cont'd)*

(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.

(i) 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 defined contribution plan, the assets of which 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.

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

(j) 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.

(k) 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)*

(l) Turnover

Turnover represents (1) gross invoiced sales, net of discounts and returns and (2) income from licensing or assignment of brandnames or trademarks.

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

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

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

(n) 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 sales 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.

(o) 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.

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 an 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 21). 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 21).

5. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in design, manufacturing, distribution and trading of jewellery products, licensing or assignment of brandnames to third parties for design, manufacturing and/or distribution of jewellery and consumer products other than timepieces, and holding of investments.

(a) Primary report 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 was organised on a worldwide basis into two main business segments:

- Jewellery - design, manufacturing, distribution and trading of jewellery products.

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

(a) Primary report format - business segments *(Cont'd)*

- Investments - investments in strategic investments, available-for-sale financial assets and investments held for trading. Strategic investments include investments in a private closed-end fund and an unlisted company 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 the Group's business penetration in the region.

	Year ended 31st May, 2006		
	Jewellery products $'000	Investments $'000	Group $'000
Turnover	1,086,684	–	1,086,684
Segment results	110,862	3,285	114,147
Finance costs			(38,264)
Profit before taxation			75,883
Taxation			2,424
Profit for the year			78,307
Attributable to:			
Equity holders of the Company			78,307
Minority interests			–
			78,307
Segment assets	1,510,436	63,284	1,573,720
Interest in an associated company	(66)	–	(66)
Total assets	1,510,370	63,284	1,573,654
Segment liabilities	(845,982)	–	(845,982)
Total liabilities	(845,982)	–	(845,982)
Capital expenditure	15,151	–	15,151
Depreciation	9,824	–	9,824
Amortisation of intangible assets	2,010	–	2,010
Amortisation of leasehold land	129	–	129
Write-back of provision for bad debts	227	–	227
Bad debt expense	2,490	–	2,490
Provision for inventory	2,502	–	2,502

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

(a) Primary report format - business segments *(Cont'd)*

	Year ended 31st May, 2005 (Restated)		
	Jewellery products $'000	Investments $'000	Group $'000
Turnover	851,352	—	851,352
Segment results	93,358	3	93,361
Finance costs			(25,515)
Profit before taxation			67,846
Taxation			5,658
Profit for the year			73,504
Attributable to:			
Equity holders of the Company			73,504
Minority interests			—
			73,504
Segment assets	1,163,056	150,873	1,313,929
Interest in an associated company	(58)	—	(58)
Total assets	1,162,998	150,873	1,313,871
Segment liabilities	(653,377)	—	(653,377)
Total liabilities	(653,377)	—	(653,377)
Capital expenditure	12,724	—	12,724
Depreciation	8,472	—	8,472
Amortisation of intangible assets	2,132	—	2,132
Amortisation of leasehold land	126	—	126
Write-back of provision for bad debts	339	—	339
Bad debt expense	2,690	—	2,690
Write-back of provision for inventory	22,832	—	22,832

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 the geographical location of the assets.

	Year ended 31st May, 2006			At 31st May, 2006
	Turnover $'000	Segment results $'000	Capital expenditure $'000	Total assets $'000
Europe	**781,824**	**71,934**	**462**	**412,316**
America	**83,221**	**(12,365)**	**1,565**	**49,875**
Asia Pacific	**221,639**	**54,578**	**13,124**	**1,111,529**
	1,086,684	**114,147**	**15,151**	**1,573,720**
Interest in an associated company				**(66)**
				1,573,654

	Year ended 31st May, 2005 (Restated)			At 31st May, 2005 (Restated)
	Turnover $'000	Segment results $'000	Capital expenditure $'000	Total assets $'000
Europe	650,766	83,335	854	454,256
America	76,037	(6,772)	2,655	50,947
Asia Pacific	124,549	16,798	9,215	808,726
	851,352	93,361	12,724	1,313,929
Interest in an associated company				(58)
				1,313,871

6. OTHER REVENUES

	2006	2005 (Restated)
	$'000	$'000
Interest income	**28,587**	22,918
Dividend income	**1,525**	—
Management fees	**194**	5
Redemption premium received on maturity of equity-linked notes	**1,295**	8,512
Gain on disposal of available-for-sale financial assets	**1,763**	—
Gain on revaluation of listed trading securities	**—**	3
Gain on derivative financial instruments		
- forward gold and silver contracts	**7,818**	—
- silver options	**2,608**	—
- currency options	**418**	—
Others	**4,590**	11,112
	48,798	42,550

7. OPERATING PROFIT

Operating profit was stated after crediting and charging the following:

	2006	2005 (Restated)
	$'000	$'000
Crediting:		
Interest income from		
- bank deposits	**1,681**	497
- promissory notes	**23,938**	19,027
- equity-linked notes	**437**	1,481
- deposit with fellow subsidiaries	**648**	1,030
- others	**1,883**	883
Gain on disposal of available-for-sale financial assets		
- unlisted trading securities	**1,763**	—
Gain on revaluation of listed trading securities	**—**	3
Auditors' remuneration		
- prior year over-provision	**—**	26
Redemption premium received on maturity of equity-linked notes	**1,295**	8,512
Gain on derivative financial instruments		
- forward gold/silver contracts	**7,818**	—
- silver options	**2,608**	—
- currency options	**418**	—
Write-back of provision for bad debts	**227**	339
Write-back of provision for inventory	**—**	22,832

7. OPERATING PROFIT *(Cont'd)*

	2006 $'000	2005 (Restated) $'000
Charging:		
Depreciation:		
- owned fixed assets	**9,824**	8,421
- leased fixed assets	**—**	51
Amortisation of intangible assets	**2,010**	2,132
Amortisation of leasehold land	**129**	126
Loss on disposal of fixed assets	**12**	125
Loss on disposal of intangible assets	**—**	11
Loss on derivative financial instruments		
– forward foreign exchange contracts	**4,633**	—
Auditors' remuneration		
– current year	**1,492**	1,458
– prior year under-provision	**19**	—
Operating lease rentals		
– leasehold land and buildings	**7,683**	7,736
– furniture and equipment	**2,718**	2,705
Bad debt expense	**2,490**	2,690
Exchange loss, net	**2,747**	5,696
Staff costs (including Directors' and senior executives' emoluments) *(Note 13)*	**154,208**	148,922

8. FINANCE COSTS

	2006 $'000	2005 $'000
Interest on bank borrowings wholly repayable within five years	**26,960**	16,367
Interest on convertible bonds	**47**	140
Interest on other loans	**569**	51
Interest element of finance leases	**—**	5
Interest on advance from fellow subsidiaries	**1,006**	62
Interest on advance from an associated company	**7**	7
Net fair value loss on financial instruments	**1,607**	—
Bank charges	**8,068**	8,883
	38,264	25,515

9. TAXATION

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

	2006	2005
	$'000	$'000
The Company and its subsidiaries:		
Current taxation:		
Hong Kong profits tax		
- Provision for the year	**824**	767
- Under/(Over)-provision in prior years	**150**	(4,879)
Overseas taxation		
- Provision for the year	**148**	384
- Under-provision in prior years	**1,102**	1,534
Deferred taxation *(Note 31(a))*:		
- Recognised during the year	**(4,648)**	(3,464)
Tax income for the year	**(2,424)**	(5,658)

Hong Kong profits tax has been provided at the rate of 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.

(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	**75,883**	67,846
Tax at the domestic profits tax rate of 17.5% (2005: 17.5%)	**13,280**	11,873
Tax effect of income not subject to taxation	**(28,385)**	(19,886)
Tax effect of expenses that are not deductible in determining taxable profit	**5,301**	2,407
Tax effect of tax loss not recognised	**7,672**	5,454
Tax effect of other temporary differences not recognised	**(199)**	(33)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(1,345)**	(2,128)
Under/(Over)-provision in prior years	**1,252**	(3,345)
Tax income for the year	**(2,424)**	(5,658)

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company is dealt with in the accounts of the Company to the extent of approximately $4,137,000 (2005: $45,024,000).

11. DIVIDENDS

	2006 $'000	2005 $'000
Interim, paid, of 2.50 cents (2005: 5.50 cents) per ordinary share	**11,264**	22,724
Final, proposed, Nil (2005: 1.85 cents) per ordinary share	**–**	7,897
	11,264	30,621

During the year, an interim dividend of approximately $11,264,000 (2005: $22,724,000) was declared and paid on 29th March, 2006.

The Directors did not recommend the payment of any final dividend for the year ended 31st May, 2006.

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 $78,307,000 (2005: $73,504,000) and the weighted average number of ordinary shares of approximately 433,948,000 (2005: 367,754,000) in issue during the year.

(b) Diluted earnings per share

During the years ended 31st May, 2005 and 31st May, 2006, the Company's share options exercise price was above the average fair value of one ordinary share, thus there were no dilutive potential ordinary shares.

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

	2006 $'000	2005 $'000
Wages and salaries	**153,635**	148,458
Staff retirement scheme contributions *(Note 35)*	**702**	562
Less: Refund of forfeited contributions *(Note 35)*	**(129)**	(98)
	154,208	148,922

14. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Directors' emoluments

(i) Details of Executive Directors' emoluments were set out below:

2006

Executive Directors	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
Hans-Joerg Seeberger	–	552	12	–	–	564
Peter Ka Yue Lee	–	509	36	–	–	545
Michael Richard Poix	–	110	–	–	–	110
Ho Yin Chik	–	432	30	–	–	462
Michael Bommers	–	90	–	–	–	90
Shunji Saeki	–	115	–	–	–	115
David Wai Kwong Wong	–	600	–	–	–	600
	–	2,408	78	–	–	2,486
Independent Non-Executive Directors						
Andy Yick Man Ng	100	–	–	–	–	100
Charles Cho Chiu Sin	200	–	–	–	–	200
Eduardo Tang Lung Lau	100	–	–	–	–	100
Professor Zhengfu Wang	–	–	–	–	209	209
	400	–	–	–	209	609
Total	400	2,408	78	–	209	3,095

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

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

2005

Executive Directors	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
Hans-Joerg Seeberger	–	552	12	–	–	564
Peter Ka Yue Lee	–	509	36	–	–	545
Michael Richard Poix	–	116	–	–	–	116
Michael Bommers	–	85	–	–	–	85
Shunji Saeki	–	122	–	–	–	122
David Wai Kwong Wong	–	250	–	–	–	250
Hartmut VAN DER STAETEN	–	–	–	–	–	–
	–	1,634	48	–	–	1,682
Independent Non-Executive Directors						
Andy Yick Man Ng	–	–	–	–	–	–
Charles Cho Chiu Sin	200	–	–	–	–	200
Eduardo Tang Lung Lau	100	–	–	–	–	100
Professor Zhengfu Wang	–	–	–	–	231	231
	300	–	–	–	231	531
Total	300	1,634	48	–	231	2,213

* The Directors were entitled to a discretionary bonus.

(ii) 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 was paid or payable to any Director.

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

(b) Five highest-paid individuals

(i) During the years ended 31st May, 2005 and 2006, the five highest-paid individuals did not include any Director. The emoluments of the five (2005: five) highest-paid individuals were analysed as below:

	Group	
	2006	2005
	$'000	$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**5,327**	5,498
Contributions to pension schemes	**56**	70
Bonuses	**236**	—
	5,619	5,568

(ii) Analysis of emoluments paid to the aforementioned five (2005: five) highest-paid individuals by number of individuals and emolument ranges was as follows:

	Group	
	2006	2005
- Nil - $1,000,000	**3**	3
- $1,000,001 - $1,500,000	**1**	1
- $1,500,001 - $2,000,000	**1**	1
	5	5

(iii) During the year, no emoluments of the five highest-paid individuals 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	Plant and machinery $'000	Furniture and fixtures $'000	Motor vehicles $'000	Total $'000
Cost							
At 1st June, 2005, as previously reported	2,167	7,000	19,236	46,290	37,820	2,995	115,508
Effect of adopting HKAS 17	–	(3,585)	–	–	–	–	(3,585)
At 1st June, 2005, as restated	2,167	3,415	19,236	46,290	37,820	2,995	111,923
Exchange adjustments	140	–	173	126	572	41	1,052
Additions	–	–	4,277	7,091	3,459	314	15,141
Disposals	–	–	–	(91)	(471)	(374)	(936)
At 31st May, 2006	**2,307**	**3,415**	**23,686**	**53,416**	**41,380**	**2,976**	**127,180**
Accumulated depreciation							
At 1st June, 2005	349	–	13,014	36,221	19,470	2,413	71,467
Effect of adopting HKAS 17	–	531	–	–	–	–	531
At 1st June, 2005, as restated	349	531	13,014	36,221	19,470	2,413	71,998
Exchange adjustments	48	–	58	59	394	40	599
Charge for the year	62	80	2,096	3,048	4,126	412	9,824
Disposals	–	–	–	(86)	(331)	(303)	(720)
At 31st May, 2006	**459**	**611**	**15,168**	**39,242**	**23,659**	**2,562**	**81,701**
Net book value							
At 31st May, 2006	**1,848**	**2,804**	**8,518**	**14,174**	**17,721**	**414**	**45,479**
At 31st May, 2005, as restated	1,818	2,884	6,222	10,069	18,350	582	39,925

The net book values of land and buildings were analysed as follows:

	2006 $'000	2005 $'000
Held in Hong Kong		
- under leases between 10 to 50 years	**2,804**	2,884
Held outside Hong Kong		
- freehold	**1,848**	1,818
	4,652	4,702

16. LEASEHOLD LAND

Group

	Total
	$'000
Cost	
At 1st June, 2005, as previously reported	**–**
Effect of adopting HKAS 17	**5,501**
At 1st June, 2005, as restated and at 31st May, 2006	**5,501**
Accumulated amortisation	
At 1st June, 2005, as previously reported	**–**
Effect of adopting HKAS 17	**856**
At 1st June, 2005, as restated	**856**
Charge for the year	**129**
At 31st May, 2006	**985**
Net book value	
At 31st May, 2006	**4,516**
At 31st May, 2005, as restated	**4,645**

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

	Know-how $'000	Licences and trademarks $'000	Development costs $'000	Goodwill $'000	Total $'000
Cost					
At 1st June, 2005	23,227	17,617	481	88,176	129,501
Exchange adjustments	171	43	—	1,636	1,850
Additions	—	10	—	—	10
At 31st May, 2006	**23,398**	**17,670**	**481**	**89,812**	**131,361**
Accumulated amortisation					
At 1st June, 2005	9,430	4,886	220	—	14,536
Exchange adjustments	52	41	—	—	93
Charge for the year	1,498	418	94	—	2,010
At 31st May, 2006	**10,980**	**5,345**	**314**	**—**	**16,639**
Net book value					
At 31st May, 2006	**12,418**	**12,325**	**167**	**89,812**	**114,722**
At 31st May, 2005	13,797	12,731	261	88,176	114,965

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%.

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. INTERESTS IN SUBSIDIARIES

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

	Company 2006 $'000	Company 2005 $'000
Unlisted shares, at cost	**120,910**	120,910
Loan to a subsidiary *(a)*	**14,400**	14,400
	135,310	135,310
Less: Accumulated impairment losses	**(21,648)**	(21,648)
	113,662	113,662

Notes:

(a) Loan to a subsidiary of $14,400,000 (2005: $14,400,000) was unsecured, non-interest bearing and not repayable within one year.

(b) All of the amounts due from subsidiaries were unsecured and repayable on demand. Except for the amounts due from subsidiaries of approximately $9,180,000 (2005: $8,940,000) which were non-interest bearing, the remaining balances due from subsidiaries bore interest at prevailing commercial rates.

(c) The amount due to a subsidiary was unsecured, non-interest bearing and repayable on demand.

(d) At 31st May, 2006, the Company provided corporate guarantees of approximately $1,000,861,000 (2005: $977,359,000) to secure banking and other loan facilities of certain subsidiaries.

(e) The underlying value of interests in subsidiaries was, in the opinion of the Directors, not less than the Company's carrying value at 31st May, 2006.

Details of the principal subsidiaries at 31st May, 2006 were as follows:

Name	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of nominal value of issued capital held by the Company Directly	Indirectly	Principal activities
			%	%	
Abel & Zimmermann GmbH & Co KG #	Germany	EUR511,292	—	85	Manufacturing and distribution of jewellery
Calibre Jewellery (Shenzhen) Co. Ltd. # *	The People's Republic of China ("PRC")	US$600,000	—	100	Manufacturing of jewellery
EganaGoldpfeil Benelux Jewel B.V. #	The Netherlands	EUR18,000	—	100	Distribution of jewellery
Egana Investments (Pacific) Limited	Cook Islands	US$1	100	—	Investment holding and licensing operations
Egana Jewelry & Pearls (America) Corp. #	The United States of America	US$881,000	100	—	Design and distribution of jewellery
Egana Juwelen & Perlen Handels GmbH #	Austria	EUR36,336	—	100	Distribution of jewellery
Egana Marketing (Suisse) Inc.	Cook Islands	US$1	—	100	Marketing and promotion

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

Name	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
Egana Schmuck und Perlen GmbH #	Germany	EUR25,565	100	—	Design and distribution of jewellery
Everstone Limited	Hong Kong/ the PRC	$100	—	100	Manufacturing of jewellery
Guthmann + Wittenauer Schmuck GmbH #	Germany	EUR1,500,000	—	100	Manufacturing and distribution of jewellery
Jacquelin Designs Enterprises, Inc. #	The United States of America	—	100	—	Design and distribution of jewellery
Keimothai Limited #	Thailand	Baht81,000,000	—	100	Sourcing, manufacturing and distribution of jewellery
Oro Design Limited	Hong Kong	$10,000	100	—	Design, manufacturing and distribution of jewellery
Rebner GmbH #	Germany	EUR25,564	—	85	Investment holding
Time Success Industrial Limited	Hong Kong	$2	100	—	Property holding
Panorama Company Limited	Hong Kong	$2	100	—	Inactive

Notes:

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

* Wholly foreign-owned enterprise incorporated in the PRC.

19. INTEREST IN AN ASSOCIATED COMPANY

Interest in an associated company comprised:

	Group	
	2006	2005
	$'000	$'000
Share of net assets	**32**	32
Due to an associated company *(Note 39(d))*	**(98)**	(90)
	(66)	(58)

The amount due to the associated company was unsecured, interest-bearing at prevailing commercial rates and was not repayable within one year.

Details of the Group's associated company at 31st May, 2006 were as follows:

Name	Place of incorporation/ operation	Principal activity	Particulars of issued shares held	Percentage of interests held	
				Directly	Indirectly
				%	%
Rossolini Limited	Thailand	Inactive	Ordinary shares of Baht1,000 each	—	30

20. AVAILABLE –FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets comprised:

	Group 2006 $'000
Equity securities:	
Listed, at fair value	
- in Hong Kong	63,169
	63,169

Notes:

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 $150,760,000.

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.

21. DERIVATIVE FINANCIAL INSTRUMENTS

	Group 2006	
	Assets $'000	Liabilities $'000
Forward foreign exchange contracts	–	4,633
Currency options	–	3,208
Forward gold and silver contracts	7,818	–
Silver options	2,608	–
Interest rate swaps	324	–
	10,750	7,841
Analysed as:		
Non-current	324	–
Current	10,426	7,841
	10,750	7,841

(i) During the year, the Group entered into forward exchange and precious metals 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 sell and buy Euro Dollar with a notional principal value of approximately EUR6,390,000 (2005: EUR435,000) and EUR5,200,000 (2005: EUR Nil) equivalent respectively, outstanding forward precious metals contracts to purchase gold and silver with a notional principal value of approximately US$3,317,000 (2005: US$4,979,000) equivalent, written silver options to sell silver with a notional principal value of US$3,217,000 (2005: US$Nil), and written currency options with a notional principal value of EUR9,200,000 (2005: EUR13,080,000) equivalent respectively. Such outstanding contracts were scheduled to settle or expire, through May 2007.

(ii) At 31st May, 2006, the Group had outstanding interest rate swap contracts with a notional amount of approximately $60 million (2005: $120 million). Such outstanding contracts were scheduled to settle or expire, through August 2007.

22. INVENTORIES

	Group 2006 $'000	Group 2005 $'000
Raw materials	**93,583**	64,551
Work-in-progress	**43,310**	39,335
Finished goods	**142,291**	165,948
	279,184	269,834
Less: Provision for inventory	**(3,958)**	(341)
	275,226	269,493

At 31st May, 2005 and 2006, no inventories were carried at net realisable value.

At 31st May, 2006, inventories of approximately $33,130,000 (2005: $59,687,000) were pledged as security for banking facilities granted to the Group.

23. ACCOUNTS RECEIVABLE, NET

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

	Group 2006 $'000	Group 2005 $'000	Company 2006 $'000	Company 2005 $'000
Due				
In current month	**298,850**	58,995	**—**	—
Between one to two months	**8,095**	6,198	**—**	—
Between two to three months	**2,546**	1,589	**—**	—
Between three to four months	**318**	1,828	**—**	—
Over four months	**35,043**	16,757	**—**	—
	344,852	85,367	**—**	—

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

24. ROYALTY DEPOSIT - GROUP

Royalty deposit represented a deposit paid to a subsidiary of EganaGoldpfeil in connection with a seven years' guaranteed minimum royalty under the "Goldpfeil" licence which bore interest at commercial rates.

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25. INVESTMENTS HELD FOR TRADING

	Group 2006 $'000
Trading securities listed outside Hong Kong	**115**

Note:

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 $113,000.

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.

26. PROMISSORY NOTES

Promissory notes represented short-term deposits with independent third party companies with maturity within three months, which were unsecured and bore interest at prevailing commercial rates. At 31st May, 2006, all the promissory notes were due for repayment in the period from June to August 2006 of which approximately $263,435,000 was rolled over upon maturity for another one to three months.

27. ACCOUNTS PAYABLE, ACCRUALS AND OTHER PAYABLES

At 31st May, 2006, accounts payable, accruals and other payables were analysed as follows:

	Group		Company	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Accounts payable	**170,109**	69,614	**—**	—
Accrued charges and other payables	**51,319**	58,646	**2,482**	1,464
	221,428	128,260	**2,482**	1,464

An aging analysis of accounts payable was as follows:

	Group		Company	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Due				
In current month	**158,477**	51,750	**—**	—
Between one to two months	**4,433**	4,513	**—**	—
Between two to three months	**3,247**	4,675	**—**	—
Between three to four months	**887**	3,578	**—**	—
Over four months	**3,065**	5,098	**—**	—
	170,109	69,614	**—**	—

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

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28. SHORT-TERM BANK BORROWINGS

	Group		Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Bank loans and overdrafts	**233,245**	168,772	**—**	—
Trust receipts and import loans	**57,806**	60,271	**—**	—
	291,051	229,043	**—**	—

29. LONG-TERM LIABILITIES

Long-term liabilities comprised:

	Group		Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Long-term bank borrowings *(a)*	**156,797**	211,567	**108,000**	120,000
Notes payable *(b)*	**3,928**	3,977	**—**	—
Other long-term loans *(c)*	**1,197**	1,528	**—**	—
	161,922	217,072	**108,000**	120,000
Less: Current portion of long-term liabilities	**(62,103)**	(55,468)	**(30,000)**	(12,000)
	99,819	161,604	**78,000**	108,000

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

Notes:

(a) Long-term bank borrowings:

	Group		Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Repayable within a period of				
- within one year				
- secured	**—**	—	**—**	—
- unsecured	**61,546**	54,776	**30,000**	12,000
- in the second year				
- secured	**—**	—	**—**	—
- unsecured	**65,501**	116,791	**36,000**	108,000
- in the third to fifth year				
- secured	**—**	—	**—**	—
- unsecured	**29,750**	40,000	**42,000**	—
	156,797	211,567	**108,000**	120,000
Less: Amounts repayable within one year included under current liabilities	**(61,546)**	(54,776)	**(30,000)**	(12,000)
	95,251	156,791	**78,000**	108,000

On 5th March, 2004, the Company entered into a syndicated loan agreement (the "Loan Agreement") with banks for a three-year transferable loan facility amounting to $120 million. The syndicated loan carries interest at commercial lending rates and is guaranteed by certain subsidiaries of the Company.

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

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	**221,985**	279,038	**108,000**	120,000
US dollars	**120,288**	65,818	**—**	—
Euro dollars	**95,875**	88,234	**—**	—
Others	**9,700**	7,520	**—**	—
Total	**447,848**	440,610	**108,000**	120,000

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

(b) Notes payable:

	Group	
	2006	2005
	$'000	$'000
Repayable within a period of		
- within one year	**94**	94
- in the second year	**94**	94
- in the third to fifth year	**280**	280
- after the fifth year	**3,460**	3,509
	3,928	3,977
Less: Amounts repayable within one year included under current liabilities	**(94)**	(94)
	3,834	3,883

At 31st May, 2006, notes payable not wholly repayable within five years amounted to approximately $3,928,000 (2005: $3,977,000). These balances were unsecured, non-interest bearing and repayable by instalments.

(c) Other long-term loans:

	Group	
	2006	2005
	$'000	$'000
Repayable within a period of		
- within one year	**463**	598
- in the second year	**253**	194
- in the third to fifth year	**481**	664
- after the fifth year	**—**	72
	1,197	1,528
Less: Amounts repayable within one year included under current liabilities	**(463)**	(598)
	734	930

At 31st May, 2006, other long-term loans not wholly repayable within five years amounted to approximately $987,000 (2005: $1,165,000). Except for an amount of approximately $987,000 (2005: $1,165,000) which was interest-bearing at commercial lending rates, all other balances were unsecured, non-interest bearing and repayable by instalments.

30. CONVERTIBLE BONDS

	Group and Company $'000
At 1st June, 2004, as previously reported	66,300
Effect of adopting HKAS 32 - reclassification to equity portion	(36,174)
At 1st June, 2004, as restated	30,126
Issue during the year - liability portion	17,721
Converted to ordinary shares - liability portion	(47,847)
Repayment of convertible bonds	—
At 1st June, 2005	—
Issue during the year - liability portion	16,197
Converted to ordinary shares - liability portion	(16,197)
Repayment of convertible bonds	—
As at 31st May, 2006	—

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

On 26th February, 2004, the Company issued convertible bonds of US$10 million (equivalent to approximately $78 million) to Merrill Lynch. US$1.5 million (equivalent to $11.7 million) were converted into ordinary shares of the Company 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, the Company issued convertible bonds of US$5 million (equivalent to approximately $39 million) to Merrill Lynch. During the year ended 31st May, 2005, Merrill Lynch has fully converted these bonds into ordinary shares of the Company.

In accordance with the terms and conditions of a subscription letter dated 10th February, 2004, the Company granted Merrill Lynch subscription rights to subscribe for approximately 5.5 million and 3.5 million ordinary shares of the Company in respect of the bonds issued on 26th February, 2004 and 4th February, 2005 respectively.

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

On 24th May, 2006, the Company 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 remaining unexercised as of date of the Letter Agreement for a consideration of $2,950,000.

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

31. DEFERRED TAX ASSETS/(LIABILITIES)

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

	Group 2006 $'000	Group 2005 $'000
Beginning of year	**14,771**	8,357
Exchange adjustments	**205**	(155)
Recognised during the year	**4,648**	3,464
Transfer from taxation payable	**–**	3,105
End of year	**19,624**	14,771
Provided for in respect of:		
Accelerated depreciation allowances	**(2,403)**	(1,874)
Unrealised profit in inventories of subsidiaries	**11,964**	6,779
Deferred expense	**–**	434
Tax losses carried forward	**10,063**	9,432
	19,624	14,771

	Company 2006 $'000	Company 2005 $'000
Beginning of year	**50**	(20)
Recognised during the year	**(50)**	70
End of year	**–**	50
Provided for in respect of:		
Deferred expense	**–**	50
	–	50

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.

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31. 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 balance sheet:

	Group		Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Deferred tax liabilities	**(2,403)**	(1,874)	**—**	—
Deferred tax assets	**22,027**	16,645	**—**	50
	19,624	14,771	**—**	50

(c) At 31st May, 2006, the Group has unused tax losses of approximately $71,940,000 (2005: $85,776,000) available for offset against future profits. Deferred tax asset has been recognised in respect of approximately $10,325,000 (2005: $23,175,000) of such losses. No deferred tax asset has been recognised in respect of the remaining $61,615,000 (2005: $62,601,000) due to the unpredictability of future profit streams. The unrecognised tax losses will expire through 5 years to indefinitely.

32. SHARE CAPITAL

Share capital comprised:

	Group and Company			
	2006	2005	**2006**	2005
	Number of ordinary shares		**$'000**	$'000
Authorised:				
Beginning and end of year	**500,000,000**	500,000,000	**250,000**	250,000
Issued and fully paid:				
Beginning of year	**413,164,452**	317,470,029	**206,582**	158,735
Issued upon exercise of convertible bonds	**37,388,369**	95,694,423	**18,694**	47,847
End of year	**450,552,821**	413,164,452	**225,276**	206,582

At 31st May, 2006, the Company had issued a total of 37,388,369 (2005: 95,694,423) new ordinary shares of $0.5 each in the Company upon the conversion of $39,000,000 (2005: $105,300,000) convertible bonds as set out in Note 30. Share premium of approximately $20,306,000 (2005: $57,453,000) arose from the issuance of new ordinary shares.

32. SHARE CAPITAL *(Cont'd)*

Share options

At the Extraordinary General Meeting of the Company held on 26th June, 1998, the Executive Share Option Scheme was approved and adopted. Share options are granted to eligible full-time employees including the Executive Directors of the Company and its subsidiaries. A nominal consideration at $1 would be paid by the employees for each lot of share options granted. Share options are subjected to a maximum of 10% of the issued share capital of the Company from time to time.

Details of outstanding share options:

		At 31st May, 2006			At 31st May, 2005		
Date granted	**Expiry date**	**Exercise price $**	**No. of options '000**	**No. of options vested '000**	Exercise price $	No. of options '000	No. of options vested '000
Directors							
09/01/2000	23/07/2008	**2.24**	**3,550**	**—**	2.24	3,550	—
12/01/2000	23/07/2008	**2.24**	**—**	**—**	2.24	—	—
17/01/2000	23/07/2008	**2.24**	**250**	**—**	2.24	250	—
			3,800	**—**		3,800	—
Employees under continuous contracts (excluding Directors)							
07/01/2000 to 31/01/2000	23/07/2008	**2.24**	**9,075**	**—**	2.24	9,075	—
			9,075	**—**		9,075	—
			12,875	**—**		12,875	—

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

No share options were lapsed (2005: 250,000) during the year.

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 premium $'000	Convertible bonds equity portion $'000	Exchange translation reserve $'000	Retained profits $'000	Goodwill $'000	Revaluation reserve $'000	Available-for-sale financial assets revaluation reserve $'000	Other reserve $'000	Total $'000	Minority Interests $'000	Total $'000
Beginning of year, as previously reported	96,724	–	13,838	333,964	(13,149)	22,425	–	69	453,871	41	453,912
Effect of adopting HKAS 39 (Note 2 (a))	–	–	–	–	–	(22,425)	22,425	–	–	–	–
Beginning of year, as restated	96,724	–	13,838	333,964	(13,149)	–	22,425	69	453,871	41	453,912
Equity portion of convertible bonds issued	–	22,802	–	–	–	–	–	–	22,802	–	22,802
Share premium arising from conversion of convertible bonds	17,356	(22,802)	–	–	–	–	–	–	(5,446)	–	(5,446)
Expenses incurred in connection with conversion of convertible bonds	(8)	–	–	–	–	–	–	–	(8)	–	(8)
Exchange differences arising on translation of overseas subsidiaries' accounts	–	–	946	–	–	–	–	–	946	–	946
Share of exchange translation reserve by minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	1	1
Deficit on revaluation of listed available-for-sale financial assets	–	–	–	–	–	–	(12,276)	–	(12,276)	–	(12,276)
Disposal of unlisted available-for-sale financial assets	–	–	–	–	–	–	(16,468)	–	(16,468)	–	(16,468)
Profit for the year	–	–	–	78,307	–	–	–	–	78,307	–	78,307
2005 final dividend paid	–	–	–	(8,110)	–	–	–	–	(8,110)	–	(8,110)
Interim dividend paid	–	–	–	(11,264)	–	–	–	–	(11,264)	–	(11,264)
End of year	114,072	–	14,784	392,897	(13,149)	–	(6,319)	69	502,354	42	502,396

	Retained profits $'000
Representing:	
2006 Final dividend proposed	–
Others	392,897
Retained profits at end of year	392,897

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 holders of the Company									
	Share premium $'000	Convertible bonds equity portion $'000	Exchange translation reserve $'000	Retained profits $'000	Goodwill $'000	Revaluation reserve $'000	Other reserve $'000	Total $'000	Minority Interests $'000	Total $'000
Beginning of year, as previously reported	39,295	–	12,354	214,883	68,814	17,447	69	352,862	–	352,862
Effect of adopting HKAS 1 (Note 2 (a))	–	–	–	–	–	–	–	–	41	41
Effect of adopting HKAS 17 (Note 2 (a))	–	–	–	1,577	–	–	–	1,577	–	1,577
Effect of adopting HKAS 32 (Note 2 (a))	–	36,174	–	–	–	–	–	36,174	–	36,174
Effect of adopting HKFRS 3	–	–	–	81,963	(81,963)	–	–	–	–	–
Beginning of year, as restated	39,295	36,174	12,354	298,423	(13,149)	17,447	69	390,613	41	390,654
Equity portion of convertible bonds issued	–	21,279	–	–	–	–	–	21,279	–	21,279
Share premium arising from conversion of convertible bonds	57,453	(57,453)	–	–	–	–	–	–	–	–
Expenses incurred in connection with conversion of convertible bonds	(24)	–	–	–	–	–	–	(24)	–	(24)
Exchange differences arising on translation of overseas subsidiaries' accounts	–	–	1,484	–	–	–	–	1,484	–	1,484
Surplus on revaluation of non-trading securities	–	–	–	–	–	4,978	–	4,978	–	4,978
Profit for the year	–	–	–	73,504	–	–	–	73,504	–	73,504
2004 final dividend paid	–	–	–	(15,239)	–	–	–	(15,239)	–	(15,239)
Interim dividend paid	–	–	–	(22,724)	–	–	–	(22,724)	–	(22,724)
End of year, as restated	96,724	–	13,838	333,964	(13,149)	22,425	69	453,871	41	453,912
Representing:										
2005 Final dividend proposed				7,897						
Others				326,067						
Retained profits at end of year				333,964						

At 31st May, 2005 and 2006, all the reserves of the Group were attributable to the Company and its subsidiaries.

33. RESERVES *(Cont'd)*

Company

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

	Share premium $'000	Convertible bonds equity portion $'000	Retained profits $'000	Total $'000
Beginning of year	96,724	—	23,509	120,233
Equity portion of convertible bonds issued	—	22,802	—	22,802
Share premium arising from conversion of convertible bonds	17,356	(22,802)	—	(5,446)
Expenses incurred in connection with conversion of convertible bonds	(8)	—	—	(8)
Profit for the year	—	—	4,137	4,137
2005 final dividend paid	—	—	(8,110)	(8,110)
Interim dividend paid	—	—	(11,264)	(11,264)
End of year	114,072	—	8,272	122,344
Representing:				
2006 Final dividend proposed			—	
Others			8,272	
Retained profits at end of year			8,272	

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

	Share premium $'000	Convertible bonds equity portion $'000	Retained profits $'000	Total $'000
Beginning of year, as previously reported	39,295	—	16,448	55,743
Effect of adopting HKAS 32 (Note 2(a))	—	36,174	—	36,174
Beginning of year, as restated	39,295	36,174	16,448	91,917
Equity portion of convertible bonds issued	—	21,279	—	21,279
Share premium arising from conversion of convertible bonds	57,453	(57,453)	—	—
Expenses incurred in connection with conversion of convertible bonds	(24)	—	—	(24)
Profit for the year	—	—	45,024	45,024
2004 final dividend paid	—	—	(15,239)	(15,239)
Interim dividend paid	—	—	(22,724)	(22,724)
End of year	96,724	—	23,509	120,233
Representing:				
2005 Final dividend proposed			7,897	
Others			15,612	
Retained profits at end of year			23,509	

(Amounts expressed in Hong Kong dollars unless otherwise stated)

34. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	Year ended 31st May, 2006	Year ended 31st May, 2005 (Restated)
	$'000	$'000
Profit before taxation	**75,883**	67,846
Depreciation	**9,824**	8,472
Amortisation of intangible assets	**2,010**	2,132
Amortisation of leasehold land	**129**	126
Loss on disposal of fixed assets	**12**	125
Loss on disposal of intangible assets	**—**	11
Gain on revaluation of listed trading securities	**—**	(3)
Redemption premium received on maturity of equity-linked notes	**(1,295)**	(8,512)
Impairment loss on available-for-sale financial assets	**3**	—
Gain on disposal of available-for-sale financial assets	**(1,763)**	—
Gain on derivative financial instruments, net	**(6,211)**	—
Net fair value loss on interest rate swaps	**1,607**	—
Interest income	**(28,587)**	(22,918)
Interest expense	**28,589**	16,632
Operating profit before working capital changes	**80,201**	63,911
Increase in inventories	**(1,745)**	(59,391)
Decrease/(Increase) in due from fellow subsidiaries	**83,838**	(18,914)
(Increase)/Decrease in due from a related company	**(203)**	598
(Increase)/Decrease in accounts receivable	**(257,226)**	200,939
Decrease/(Increase) in deposits, prepayments and other receivables	**73,629**	(65,855)
Increase in accounts payable, accruals and other payables	**96,285**	5,569
Increase in bills payable	**27,926**	5,405
Increase/(Decrease) in due to an associated company	**4**	(1)
Increase/(Decrease) in due to fellow subsidiaries	**56,216**	(34,849)
(Decrease)/Increase in due to a related company	**(1,719)**	697
Increase in due to Directors	**90**	85
Increase in derivative financial instruments assets	**(10,750)**	—
Increase in derivative financial instruments liabilities	**7,841**	—
Effect of foreign exchange rate changes	**(609)**	561
Net cash inflow generated from operations	**153,778**	98,755

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

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

	Year ended 31st May, 2006								
	Share capital (including share premium) $'000	Other reserve $'000	Dividend payable $'000	Long-term bank borrowings $'000	Short-term bank borrowings $'000	Notes payable and other long-term loans $'000	Convertible bonds $'000	Total $'000	2005 Total $'000
Beginning of year	303,306	69	–	211,567	229,043	5,505	–	749,490	552,695
Net cash (outflow)/ inflow from financing	(2,958)	–	(19,374)	(54,614)	59,322	(392)	39,000	20,984	156,803
Conversion of convertible bonds	39,000	–	–	–	–	–	(39,000)	–	–
Prior year final dividend paid	–	–	8,110	–	–	–	–	8,110	15,239
Interim dividend paid	–	–	11,264	–	–	–	–	11,264	22,724
Exchange adjustments	–	–	–	(156)	2,686	12	–	2,542	2,029
End of year	339,348	69	–	156,797	291,051	5,125	–	792,390	749,490

(c) Analysis of cash and cash equivalents:

	2006 $'000	2005 $'000
Promissory notes *(Note 26)*	**546,390**	357,329
Cash and bank balances	**81,322**	60,820
	627,712	418,149

35. PENSION SCHEME

The Group has participated in the defined Mandatory Provident Fund Scheme in Hong Kong since 1st December, 2000 and made monthly contributions to the scheme based on 5% - 7% of the employees' basic salaries. The contributions were subject to a maximum of $1,000 per month per employee and thereafter contributions are voluntary. During the year, the Group's employer's contribution for pension scheme was approximately $702,000 (2005: $562,000). The assets of the fund were held separately from those of the Group and were managed by independent professional fund managers.

Forfeited contributions totalling $129,000 (2005: $98,000) were utilised during the year.

36. CONTINGENT LIABILITIES

Contingent liabilities not provided for in the accounts were summarised below:

	Group		**Company**	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Discounted bills with recourse	**–**	40,506	**–**	–
Corporate guarantees provided to financial institutions in respect of facilities granted to subsidiaries *(Note 18(d))*	**–**	–	**961,861**	931,280
Corporate guarantees provided to other institutions in respect of facilities granted to subsidiaries *(Note 18(d))*	**–**	–	**39,000**	46,079

As mentioned in Note 2 (a), 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 under HKAS 39.

In addition, the Company guaranteed the payment and performance by a subsidiary under a license agreement pursuant to which the subsidiary was a licensee.

37. BANKING FACILITIES

At 31st May, 2006, the Group's banking facilities for overdrafts, loans and trade finance were secured by unconditional and continuing corporate guarantees provided by the Company and certain subsidiaries and cross guarantees among its subsidiaries.

38. COMMITMENTS

(a) At 31st May, 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases 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	**7,251**	**1,738**	6,482	2,444
- Later than one year and not later than five years	**25,614**	**1,440**	22,880	1,192
- Later than five years	**15,890**	**—**	20,919	—
	48,755	**3,178**	50,281	3,636

(b) At 31st May, 2006, the Group had future aggregate minimum payments under license agreements as follows:

	2006 $'000	2005 $'000
Payable:		
- Not later than one year	**23,325**	27,420
- Later than one year and not later than five years	**84,007**	94,818
- Later than five years	**170,277**	182,744
	277,609	304,982

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

39. RELATED PARTY AND CONNECTED TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control 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.

(a) Particulars of significant transactions between the Group and related companies during the year were summarised below:

	Year ended 31st May, 2006 $'000	Year ended 31st May, 2005 $'000
Sales of goods/services [5] ("Trading transactions")		
Comtesse Accessoires GmbH [1]	**—**	28
Bartelli Leather Products Limited[1]	**309**	67
Haru Japan Corporation, Inc.[1]	**—**	2
Eco-Haru (Far East) Limited[1]	**(504)**	1,778
Egana-Haru Mfr. Corp. Limited[1]	**17**	111
Egana India Private Limited[1]	**1,057**	129
EganaGoldpfeil (Switzerland) Limited[1]	**5,199**	5,434
EganaGoldpfeil Italia s.r.l.[1]	**142**	36
Salamander in Austria GmbH[1]	**21**	—
Junghans Uhren GmbH[1]	**—**	23
Goldpfeil GmbH[1]	**—**	30
Egana of Switzerland (Far East) Limited[1]	**104**	9
Zeitmesstechnik GmbH[1]	**44**	19
	6,389	7,666
Purchases of goods[6] ("Trading transactions")		
Egana of Switzerland (Far East) Limited[1]	**3**	5
EganaGoldpfeil (Switzerland) Limited[1]	**—**	103
Egana-Haru Mfr. Corp. Limited[1]	**1,582**	1,443
European Technology & Logistic Center GmbH[1]	**—**	13
Bartelli Leather Products Limited[1]	**74**	62
Zeitmesstechnik GmbH[1]	**2,799**	2,982
EganaGoldpfeil Italia s.r.l.[1]	**—**	28
	4,458	4,636

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(a) Particulars of significant transactions between the Group and related companies during the year were summarised below: *(Cont'd)*

	Year ended 31st May, 2006 $'000	Year ended 31st May, 2005 $'000
Interest income		
Centreline Group Limited[(1)]	**269**	1,030
European Technology & Logistic Center GmbH[(1)]	**379**	—
	648	1,030
Management fee income		
EganaGoldpfeil (Switzerland) Limited[(1)]	**189**	—
Allocation of operating costs[(7)]		
Egana Deutschland GmbH[(1)]	**57,092**	75,636
EganaGoldpfeil Europe (Holdings) GmbH[(1)]	**38**	2,602
European Technology & Logistic Center GmbH[(1)]	**19,993**	21,705
Goldpfeil GmbH[(1)]	**2**	—
Junghans Uhren GmbH[(1)]	**172**	—
EganaGoldpfeil Benelux Time B.V.[(1)]	**438**	—
	77,735	99,943
Consultancy fee expenses		
International Taxation Advisory Services Limited[(3)]	**—**	568
Interest expenses		
European Technology & Logistic Center GmbH[(1)]	**566**	62
Rossolini Limited[(4)]	**7**	7
EganaGoldpfeil Europe (Holdings) GmbH[(1)]	**305**	—
Sioux GmbH[(1)]	**135**	—
	1,013	69
Rental expenses[(7)]		
Eco-Haru Property Investments Limited[(1)]	**38**	38
EganaGoldpfeil Europe (Holdings) GmbH[(1)]	**1,158**	1,214
	1,196	1,252
Management fee expenses		
EganaGoldpfeil (Holdings) Limited[(1)]	**8,912**	6,952
Egana-Haru Mfr. Corp. Limited[(1)]	**3,822**	3,672
	12,734	10,624
Royalty fee expenses[(8)]		
P.C. International Marketing Limited[(1)]	**9,365**	9,005
Goldpfeil GmbH[(1)]	**846**	1,520
Egana Deutschland GmbH[(1)]	**230**	269
Bartelli Leather Products Limited[(1)]	**3,878**	6,433
JOOP! GmbH[(1)]	**5,308**	5,381
	19,627	22,608

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

(a) Particulars of significant transactions between the Group and related companies during the year were summarised below: *(Cont'd)*

	2006 $'000	2005 $'000
Amount due from		
(i) Fellow subsidiaries[1]:		
Bartelli Leather Products Limited	**—**	10
Eco-Haru (Far East) Limited	**—**	27
Egana Deutschland GmbH	**8,141**	93,376
Egana India Private Limited	**1,125**	143
Egana of Switzerland (America) Corp.	**1,246**	1,227
EganaGoldpfeil (Switzerland) Limited	**709**	2,150
EganaGoldpfeil Italia s.r.l.	**12**	89
Egana-Haru Mfr. Corp. Limited	**112**	—
European Technology & Logistic Center GmbH	**—**	332
Goldpfeil GmbH	**389**	—
Haru Japan Corporation, Inc.	**2**	2
Junghans Uhren GmbH	**—**	23
Salamander in Austria GmbH	**9**	—
Goldpfeil Geneve SA	**—**	117
Goldpfeil Guam, Inc.	**—**	132
	11,745	97,628
(ii) Related company[2]:		
Dominique Roger Diffusion S.A.R.L.	**1,033**	829
Amount due to		
(i) Fellow subsidiaries[1]:		
Bartelli Leather Products Limited	**—**	41
EganaGoldpfeil Europe (Holdings) GmbH	**21,123**	1,570
Eco-Haru (Far East) Limited	**9**	—
Egana Deutschland GmbH	**31**	31
Egana Uhrenvertriebs GmbH	**—**	1,067
EganaGoldpfeil Benelux Time B.V.	**16,899**	2,305
EganaGoldpfeil Italia s.r.l.	**—**	8
Egana-Haru Mfr. Corp. Limited	**116**	2,308
European Technology & Logistic Center GmbH	**18,329**	820
Goldpfeil GmbH	**2**	248
Junghans Uhren GmbH	**189**	9
Sioux GmbH	**10,021**	—
Zeitmesstechnik GmbH	**1,653**	984
	68,372	9,391
(ii) Related company[2]:		
JOOP! GmbH	**180**	1,942
(iii) Associated company[4]:		
Rossolini Limited	**98**	90

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

Notes:

(1) Subsidiary of EganaGoldpfeil which is not within the Group ("fellow subsidiary").

(2) Associated company of EganaGoldpfeil which is not within the Group ("related company").

(3) A company in which Mr. David Wai Kwong WONG, an Executive Director of EganaGoldpfeil and the Company, was a director.

(4) Associated company of the Group.

(5) Sales to related parties were transacted at cost plus basis with a mark-up of approximately 5% to 300%.

(6) Purchase from related parties were determined on a cost plus basis with a mark-up of approximately 5% to 300%.

(7) Allocation of operating costs and rental expenses were charged at a cost basis in accordance with the terms specified in the relevant agreements.

(8) Royalty expenses charged by P.C. International Marketing Limited were covered by the agreements enumerated in the Company's Announcement dated 13th April, 2005. Royalties paid to Goldpfeil GmbH and Bartelli Leather Products Limited were covered by another license agreement, pursuant to which the Group was granted an exclusive right for design, manufacturing, and distribution of jewellery products under the trademark "Goldpfeil" on a worldwide basis at the sales royalty of 8% of the ex-factory price of the licensed products subject to a guaranteed minimum royalty of $8,000,000 per annum.

(b) During the year, the Group had transactions with related parties (as disclosed in Note 39(a) above), all of which were also deemed to be connected persons (as defined in the Rules Governing the Listing of Securities on the Stock Exchange), except for consultancy fees paid to International Taxation Advisory Services Limited and interest expenses paid to Rossolini Limited.

(c) The amounts due from fellow subsidiaries mainly arose from the allocation of operating costs to fellow subsidiaries according to the relevant agreements entered into between the Group companies and their fellow subsidiaries outside the Group (see Note 39(a)(7) for details).

(d) Except for an amount due to an associated company of approximately $98,000 (2005: $90,000) (see Note 19) and a royalty deposit paid to a fellow subsidiary of $Nil (2005: $7,406,000) (see Note 24) which were interest-bearing at commercial rates, all other balances with related parties and Directors were unsecured, non-interest bearing and repayable within one year.

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

	2006	2005
	$'000	$'000
Salaries and other short-term employees benefits	**7,971**	7,132
Post-employment benefits	**134**	118
	8,105	7,250

40. SUBSEQUENT EVENT

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

41. APPROVAL OF THE ACCOUNTS

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