

# NOTES TO THE ACCOUNTS

(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 except that, as disclosed in the accounting policies below, certain investments in non-trading securities, trading securities and leasehold land and buildings are stated at fair value or valuation.

In the current year, the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) adopted the revised Statement of Standard Accounting Practice 12 - Income Taxes (“SSAP 12”) issued by the HKICPA which is effective for accounting periods commencing on or after 1st January, 2003.

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

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

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

#### (b) Group accounting

##### (i) Consolidation

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

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

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

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

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

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

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

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

##### (ii) Associated company

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

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

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

##### (iii) Translation of foreign currencies

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

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

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

#### (c) Fixed assets

##### (i) Leasehold land and buildings

Leasehold land and buildings are stated at valuation less accumulated depreciation. Independent valuations are performed periodically with the last valuation performed on 31st May, 2003. In the intervening year, the Directors review the carrying value of the properties and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

##### (ii) Freehold land and buildings

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

##### (iii) Other fixed assets

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

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

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

##### (iv) Depreciation

Depreciation is calculated on the straight-line basis at annual rates estimated to write off the cost or valuation of each asset over its expected useful life. Leasehold land and buildings are depreciated over the shorter of the remaining period of the respective lease or estimated useful life. The annual rates are as follows:

Freehold land	Nil
Buildings on the freehold land	5%
Leasehold improvements	10% to 25%
Plant and machinery	15%
Furniture and fixtures	15% to 33 $\frac{1}{3}$ %
Motor vehicles	25%

##### (v) Impairment and gain or loss on sale

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

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

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

#### (d) Assets under leases

##### (i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or 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 or the lease periods.

##### (ii) Operating leases

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

#### (e) Intangible assets

##### (i) Goodwill/Negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associated company/business at the date of acquisition.

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

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

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

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

In accordance with SSAP 30 "Business combinations", goodwill on acquisitions occurring on or after 1st January, 2001 is included in intangible assets and is amortised using the straight-line method over its 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. Any impairment arising on the goodwill previously written off against reserves is accounted for in the profit and loss account.

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

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

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

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

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

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

##### (ii) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

##### (iii) Other intangible assets

Other intangible assets represent (1) costs of licences and trademarks acquired from third parties, which are amortised using the straight-line method over their estimated useful lives, but not exceeding twenty years, and (2) costs of acquiring the know-how of businesses which are amortised over their estimated useful lives of fifteen years.

##### (iv) Impairment of intangible assets

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

## **NOTES TO THE ACCOUNTS**

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

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

##### **(i) Non-trading securities**

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

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

##### **(ii) Trading securities**

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

#### **(g) Inventories**

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

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

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

#### **(i) Cash and cash equivalents**

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

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

#### (j) Employee benefits

##### (i) Employee leave entitlements

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

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

##### (ii) Profit sharing and bonus plans

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

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

##### (iii) Pension obligations

The Group operates a defined contribution plan, the assets of which are held in separate trustee-administered funds. The pension plan is funded by payments from employees and by the relevant Group companies.

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

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

#### (k) 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, and interests in joint ventures, 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.

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

#### **(k) Taxation** *(Cont'd)*

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

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

#### **(l) Contingent liabilities and contingent assets**

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

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

#### **(m) Turnover**

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

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

#### (n) Revenue recognition

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

(i) Sale of goods

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

(ii) Income from licensing or assignment of brandnames

Income from licensing or assignment of brandnames 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) Rental income

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

(v) Dividend income

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

#### (o) Borrowing costs

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

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

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

#### **(p) Segment reporting**

In accordance with the Group's internal financial reporting, 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 results are based on the destination of delivery of merchandise. Total assets and capital expenditures are based on where the assets are located.

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

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

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

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

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

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 3. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in 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 business 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.
- Investments - investments in strategic investments and other trading and non-trading securities. 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, 2004		
	Jewellery	Investments	Group
	products		
	\$'000	\$'000	\$'000
Turnover	977,633	—	977,633
Segment results	85,924	3	85,927
Finance costs			(22,448)
Profit before taxation			63,479
Taxation			5,017
Profit after taxation			68,496
Minority interests			(1)
Profit attributable to shareholders			68,495
Segment assets	1,022,451	80,230	1,102,681
Interest in an associated company	(59)	—	(59)
Total assets	1,022,392	80,230	1,102,622
Segment liabilities	(590,984)	—	(590,984)
Total liabilities	(590,984)	—	(590,984)
Capital expenditure	93,115	—	93,115
Depreciation	10,225	—	10,225
Amortisation	9,289	—	9,289
Bad debt expense	2,217	—	2,217
Write-back of provision for inventory obsolescence	5,435	—	5,435

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

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

	Year ended 31st May, 2003		
	Jewellery		
	products	Investments	Group
	\$'000	\$'000	\$'000
Turnover	718,382	—	718,382
Gain on disposal of unlisted non-trading securities	—	15,500	15,500
Segment results	61,426	15,500	76,926
Finance costs			(15,745)
Profit before taxation			61,181
Taxation			(3,241)
Profit after taxation			57,940
Minority interests			(1)
Profit attributable to shareholders			57,939
Segment assets	767,861	63,309	831,170
Interest in an associated company	(59)	—	(59)
Total assets	767,802	63,309	831,111
Segment liabilities	(374,484)	—	(374,484)
Total liabilities	(374,484)	—	(374,484)
Capital expenditure	28,738	—	28,738
Depreciation	10,308	—	10,308
Amortisation	2,476	—	2,476
Bad debt expense	3,295	—	3,295
Write-back of provision for inventory obsolescence	—	—	—

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

#### (b) Secondary reporting format - geographical segments

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

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

	Year ended 31st May, 2004			At 31st May,
	Turnover	Segment results	Capital expenditure	2004
				Total
				assets
\$'000	\$'000	\$'000	\$'000	
Europe	627,749	75,837	85,412	392,198
America	64,805	105	2,554	47,376
Asia Pacific	285,079	9,985	5,149	663,107
	<b>977,633</b>	<b>85,927</b>	<b>93,115</b>	<b>1,102,681</b>
Interest in an associated company				(59)
				<b>1,102,622</b>
	Year ended 31st May, 2003			At 31st May,
	Turnover	Segment results	Capital expenditure	2003
				Total
				assets
\$'000	\$'000	\$'000	\$'000	
Europe	562,997	86,566	16,395	337,411
America	55,731	(19,422)	3,205	47,961
Asia Pacific	99,654	9,782	9,138	445,798
	<b>718,382</b>	<b>76,926</b>	<b>28,738</b>	<b>831,170</b>
Interest in an associated company				(59)
				<b>831,111</b>

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 4. OTHER REVENUES

	<b>Year ended 31st May, 2004 \$'000</b>	Year ended 31st May, 2003 \$'000
Rental income	—	102
Interest income	<b>12,847</b>	14,480
Management fees	<b>5</b>	4
Gain on disposal of unlisted non-trading securities	—	15,500
Redemption premium received on maturity of equity-linked notes	<b>1,834</b>	1,060
Gain on disposal of fixed assets	<b>67</b>	—
Others	<b>7,513</b>	2,216
	<b>22,266</b>	33,362

### 5. OPERATING PROFIT

Operating profit was stated after crediting and charging the following:

	<b>Year ended 31st May, 2004 \$'000</b>	Year ended 31st May, 2003 \$'000
<b>Crediting:</b>		
Rental income	—	102
Interest income from		
- bank deposits	<b>301</b>	3,833
- promissory notes	<b>10,267</b>	7,978
- equity-linked notes	<b>452</b>	244
- deposit with a fellow subsidiary	<b>1,719</b>	2,334
- others	<b>108</b>	91
Gain on disposal of		
- fixed assets	<b>67</b>	—
- unlisted non-trading securities	—	15,500
Redemption premium received on maturity of equity-linked notes	<b>1,834</b>	1,060
Write-back of provision for inventory obsolescence	<b>5,435</b>	—

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

	<b>Year ended 31st May, 2004 \$'000</b>	Year ended 31st May, 2003 \$'000
<b>Charging:</b>		
Depreciation:		
- owned fixed assets	<b>10,174</b>	10,260
- leased fixed assets	<b>51</b>	48
Loss on revaluation of fixed assets	—	43
Loss on revaluation of listed non-trading securities	—	2
Amortisation of intangible assets	<b>9,289</b>	2,476
Loss on disposal of fixed assets	—	35
Auditors' remuneration		
- current year	<b>2,022</b>	2,514
- prior year under-provision	<b>962</b>	290
Operating lease rentals		
- leasehold land and buildings	<b>7,916</b>	9,065
- furniture and equipment	<b>4,058</b>	798
Bad debt expense	<b>2,217</b>	3,295
Exchange loss, net (a)	<b>378</b>	1,771
Staff costs (including Directors' and senior executives' emoluments) (Note 11)	<b>132,051</b>	88,341

Note:

- (a) The amount mainly represented the net exchange loss relating to foreign currency options and foreign currency transactions/translation loss.

During the year, the Group bought and sold certain foreign currency options from/to certain commercial banks. At 31st May, 2004, the Group's outstanding written foreign currency options with a notional principal value of EUR6,800,000 and USD1,000,000 (2003: EUR8,950,000) equivalent were marked to market in accordance with the Group's accounting policy on currency options, resulting in an unrealised exchange gain of approximately \$6,665,000 (2003: a loss of \$9,095,000).

The remaining debit amount of approximately \$7,043,000 (2003: credit amount of approximately \$7,324,000) was related to other foreign currency transactions/translation loss (2003: gain).

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 6. FINANCE COSTS

	<b>Year ended 31st May, 2004 \$'000</b>	Year ended 31st May, 2003 \$'000
Interest on bank borrowings wholly repayable within five years	<b>13,746</b>	12,521
Interest on bank borrowings not wholly repayable within five years	—	558
Interest on convertible bonds	<b>282</b>	—
Write-back of interest on notes payable	—	(653)
Interest on other loans	<b>31</b>	83
Interest element of finance leases	<b>6</b>	6
Interest on advance from a fellow subsidiary	—	50
Interest on advance from an associated company	<b>8</b>	8
Bank charges	<b>8,375</b>	3,172
	<b>22,448</b>	15,745

### 7. TAXATION

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

	<b>Year ended 31st May, 2004 \$'000</b>	Year ended 31st May, 2003 \$'000
The Company and its subsidiaries:		
Current taxation:		
Hong Kong profits tax		
- Provision for the year	<b>3,839</b>	2,500
Overseas taxation		
- Provision for the year	<b>1,614</b>	974
- Under/(Over)-provision in prior years	<b>279</b>	(233)
Deferred taxation ( <i>Note 27(a)</i> ):		
- Recognised during the year	<b>(10,749)</b>	—
Tax (income)/expense for the year	<b>(5,017)</b>	3,241

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 7. TAXATION (Cont'd)

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit arising in or derived from Hong Kong for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year provided by subsidiaries 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:

	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
Profit before taxation	<b>63,479</b>	61,181
Tax at the domestic profits tax rate of 17.5% (2003: 17.5%)	<b>11,109</b>	10,707
Tax effect of income not subject to taxation	<b>(20,238)</b>	(12,676)
Tax effect of expenses that are not deductible in determining taxable profit	<b>6,808</b>	2,374
Tax effect of utilisation of tax loss not previously recognised	—	(810)
Tax effect of tax loss not recognised	<b>4,903</b>	3,801
Tax effect of other temporary differences not recognised	<b>2,268</b>	2,032
Tax effect of other temporary differences recognised	<b>(9,410)</b>	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	<b>851</b>	(153)
Under/(Over)-provision in prior years	<b>279</b>	(233)
Others	<b>(1,587)</b>	(1,801)
Tax (income)/expense for the year	<b>(5,017)</b>	3,241

### 8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately \$31,733,000 (2003: \$47,857,000).

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 9. DIVIDENDS

	<b>Year ended 31st May, 2004 \$'000</b>	Year ended 31st May, 2003 \$'000
Interim, paid, of 5.50 cents (2003: 6.00 cents) per ordinary share	<b>17,300</b>	18,612
Final, proposed, of 4.00 cents (2003: 4.00 cents) per ordinary share	<b>13,272</b>	12,408
	<b>30,572</b>	31,020

During the year, an interim dividend of approximately \$17,300,000 (2003: \$18,612,000) was declared and paid on 25th March, 2004.

At a meeting held on 27th September, 2004, the Directors proposed a final dividend of 4.00 cents per ordinary share. This proposed dividend was not reflected as a dividend payable in the accounts, but will be reflected as an appropriation of retained profits for the year ending 31st May, 2005.

### 10. EARNINGS PER SHARE

#### (a) Basic earnings per share

The basic earnings per share was calculated based on the consolidated profit attributable to shareholders for the year of approximately \$68,495,000 (2003: \$57,939,000) and the weighted average number of ordinary shares of approximately 311,372,000 (2003: 310,206,000) in issue during the year.

#### (b) Diluted earnings per share

The diluted earnings per share was calculated based on the adjusted consolidated profit attributable to shareholders for the year of approximately \$68,727,000 and the weighted average number of ordinary shares of approximately 321,390,000 that would be in issue having adjusted for the effects of all dilutive potential ordinary shares issuable during the year.

During the year ended 31st May, 2003, the Company's share options exercise price was above the average fair value of one ordinary share and no convertible bonds were issued, thus there were no dilutive potential ordinary shares.

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

#### (c) Reconciliation

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

	<b>Year ended 31st May, 2004 \$'000</b>	Year ended 31st May, 2003 \$'000
Profit attributable to shareholders used in calculating basic earnings per share	<b>68,495</b>	57,939
Interest savings in respect of convertible bonds	<b>232</b>	—
Profit attributable to shareholders used in calculating diluted earnings per share	<b>68,727</b>	57,939

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

	<b>Year ended 31st May, 2004</b>	Year ended 31st May, 2003
Weighted average number of ordinary shares used in calculating basic earnings per share	<b>311,372,000</b>	310,206,000
Dilutive potential effect in respect of convertible bonds	<b>10,018,000</b>	—
Weighted average number of ordinary shares used in calculating diluted earnings per share	<b>321,390,000</b>	310,206,000

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

	<b>Year ended 31st May, 2004 \$'000</b>	Year ended 31st May, 2003 \$'000
Wages and salaries	<b>131,539</b>	87,593
Provision for long service payment	—	582
Staff retirement scheme contributions ( <i>Note 31</i> )	<b>538</b>	521
Less: Refund of forfeited contributions ( <i>Note 31</i> )	<b>(26)</b>	(355)
	<b>132,051</b>	88,341

### 12. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

#### (a) Directors' emoluments

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

	<b>Group</b>	
	<b>Year ended 31st May, 2004 \$'000</b>	Year ended 31st May, 2003 \$'000
Fees for Executive Directors	<b>15</b>	—
Fees for Non-executive Directors	—	—
Other emoluments for Executive Directors		
- Basic salaries, housing allowances, other allowances and benefits in kind	<b>1,528</b>	1,390
- Contributions to pension schemes for Directors	<b>48</b>	48
- Bonus *	—	—
Other emoluments for Non-executive Directors	<b>550</b>	394
	<b>2,141</b>	1,832

*Note:*

- \* The Directors were entitled to a discretionary bonus.

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

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

- (ii) Analysis of Directors' emoluments by number of Directors and emolument ranges was as follows:

	<b>Group</b>	
	<b>Year ended 31st May, 2004</b>	Year ended 31st May, 2003
Executive Directors		
- Nil - \$1,000,000	<b>7</b>	6
Non-executive Directors		
- Nil - \$1,000,000	<b>4</b>	4

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

#### (b) Five highest-paid individuals

- (i) During the year, the five highest-paid individuals did not include any Director (2003: Nil). The emoluments of the five (2003: five) highest-paid individuals were analysed as below:

	<b>Group</b>	
	<b>Year ended 31st May, 2004 \$'000</b>	Year ended 31st May, 2003 \$'000
Basic salaries, housing allowances, other allowances and benefits in kind	<b>4,179</b>	5,681
Contributions to pension schemes	<b>89</b>	75
Bonuses	<b>469</b>	318
	<b>4,737</b>	6,074

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

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

- (ii) Analysis of emoluments paid to the aforementioned five (2003: five) highest-paid individuals by number of individuals and emolument ranges was as follows:

	<b>Group</b>	
	<b>Year ended 31st May, 2004</b>	Year ended 31st May, 2003
- Nil - \$1,000,000	<b>2</b>	3
- \$1,000,001 - \$1,500,000	<b>3</b>	1
- \$1,500,001 - \$2,000,000	<b>—</b>	1
	<b>5</b>	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.

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 13. FIXED ASSETS

#### Group

	Freehold land and buildings	Leasehold land and buildings	Leasehold improvements	Plant and machinery	Furniture and fixtures	Motor vehicles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Cost or valuation</b>							
At 1st June, 2003	2,167	6,300	14,850	39,821	28,649	2,973	94,760
Exchange adjustments	—	—	—	—	537	81	618
Additions	—	—	1,855	1,427	5,266	23	8,571
Disposals	—	—	(7)	—	(279)	(80)	(366)
At 31st May, 2004	2,167	6,300	16,698	41,248	34,173	2,997	103,583
<b>Accumulated depreciation</b>							
At 1st June, 2003	227	—	10,938	30,455	11,762	911	54,293
Exchange adjustments	—	—	—	—	228	38	266
Charge for the year	61	143	1,099	3,905	4,198	819	10,225
Disposals	—	—	(3)	—	(206)	(48)	(257)
At 31st May, 2004	288	143	12,034	34,360	15,982	1,720	64,527
<b>Net book value</b>							
At 31st May, 2004	1,879	6,157	4,664	6,888	18,191	1,277	39,056
At 31st May, 2003	1,940	6,300	3,912	9,366	16,887	2,062	40,467

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

The leasehold land and buildings situated in Hong Kong were revalued on 31st May, 2003 by LCH (Asia-Pacific) Surveyors Limited, independent professional valuers, on an open market value basis. Had those leasehold land and buildings been carried at cost less accumulated depreciation, the net book value of the leasehold land and buildings at 31st May, 2004 would have been approximately \$7,733,000 (2003: \$7,933,000).

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 13. FIXED ASSETS (Cont'd)

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

	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
Held in Hong Kong		
- under leases between 10 to 50 years	<b>6,157</b>	6,300
Held outside Hong Kong		
- freehold	<b>1,879</b>	1,940
	<b>8,036</b>	8,240

(c) The net book value of motor vehicles held under finance leases amounted to approximately \$149,000 (2003: \$200,000).

### 14. INTANGIBLE ASSETS

#### Group

	Licences and Development			Goodwill	Total
	Know-how	trademarks	costs		
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Cost</b>					
At 1st June, 2003	22,743	17,048	481	10,337	50,609
Exchange adjustments	351	82	—	3,049	3,482
Additions	—	391	11	—	402
Acquisition of business	—	—	—	84,142	84,142
At 31st May, 2004	23,094	17,521	492	97,528	138,635
<b>Accumulated amortisation</b>					
At 1st June, 2003	6,300	3,058	—	3,963	13,321
Exchange adjustments	21	37	—	357	415
Charge for the year	1,585	1,273	126	6,305	9,289
At 31st May, 2004	7,906	4,368	126	10,625	23,025
<b>Net book value</b>					
At 31st May, 2004	15,188	13,153	366	86,903	115,610
At 31st May, 2003	16,443	13,990	481	6,374	37,288

The addition of goodwill arose from the acquisition of a new jewellery business from an independent third party during the year.

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 15. INTERESTS IN SUBSIDIARIES

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

	<b>Company</b>	
	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
Unlisted shares, at cost	<b>120,910</b>	120,910
Loan to a subsidiary (a)	<b>14,400</b>	14,400
	<b>135,310</b>	135,310
Less: Accumulated impairment losses	<b>(21,648)</b>	(21,648)
	<b>113,662</b>	113,662

*Notes:*

- (a) Loan to a subsidiary of \$14,400,000 (2003: \$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 \$8,739,000 (2003: \$416,000) 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, 2004, the Company provided corporate guarantees of approximately \$643,090,000 (2003: \$562,267,000) 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, 2004.

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 15. INTERESTS IN SUBSIDIARIES (Cont'd)

Details of the principal subsidiaries at 31st May, 2004 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		Principal activities
			Directly	Indirectly	
			%	%	
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	US\$600,000	—	100	Manufacturing of jewellery
EganaGoldpfeil Benelux Jewel B.V. (a), #	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
Egana Schmuck und Perlen GmbH #	Germany	EUR25,565	100	—	Design and distribution of jewellery
Everstone Limited	Hong Kong/ The People's Republic of China	\$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 (b)	Hong Kong	\$2	100	—	Inactive

Notes:

(a) A new subsidiary formed in January 2004.

(b) A new subsidiary formed in December 2003.

# Audited by certified public accountants other than RSM Nelson Wheeler.

\* Wholly foreign-owned enterprise.

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 16. INTEREST IN AN ASSOCIATED COMPANY

Interest in an associated company comprised:

	<b>2004</b>	<b>Group</b>
	<b>\$'000</b>	2003 \$'000
Share of net assets	<b>32</b>	32
Due to an associated company ( <i>Note 35(d)</i> )	<b>(91)</b>	(91)
	<b>(59)</b>	(59)

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, 2004 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

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 17. INVESTMENTS IN NON-TRADING SECURITIES

Investments in non-trading securities comprised:

	<b>2004</b>	<b>Group</b>
	<b>\$'000</b>	2003
		\$'000
Equity securities:		
Listed, at fair value		
- in Hong Kong	<b>3,687</b>	—
- other than in Hong Kong	—	101
	<b>3,687</b>	101
Unlisted, at fair value		
- a private closed-end fund (a)	<b>39,381</b>	26,254
- an unlisted company (b)	<b>37,053</b>	37,055
	<b>76,434</b>	63,309
	<b>80,121</b>	63,410

Notes:

- (a) At 31st May, 2004, the Group had a strategic investment of approximately \$39,000,000 (2003: \$26,000,000) in one private closed-end fund. The fund was under the management of a third party Hong Kong listed investment banking group ("LISTED CO"). At 31st May, 2004, the fund was stated at fair value which was determined by the Directors and a revaluation surplus of approximately \$6,000 (2003: \$4,000) was recorded in the revaluation reserve. In the opinion of the Directors, there was no indication of impairment in the carrying value of the fund.
- (b) At 31st May, 2004, the investment in the unlisted company was stated at fair value which was determined by the Directors and a revaluation surplus of approximately \$17,553,000 (2003: \$17,555,000) was recorded in the revaluation reserve. In the opinion of the Directors, there was no indication of impairment in carrying value of the unlisted company.

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 18. INVENTORIES

	<b>Group</b>	
	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
Raw materials	<b>57,352</b>	60,610
Work-in-progress	<b>31,817</b>	28,231
Finished goods	<b>141,975</b>	113,097
	<b>231,144</b>	201,938
Less: Provision for obsolescence	<b>(23,276)</b>	(8,450)
	<b>207,868</b>	193,488

At 31st May, 2003 and 2004, no inventories were carried at net realisable value.

At 31st May, 2004, inventories of approximately \$48,782,000 (2003: \$44,417,000) were pledged as security for banking facilities granted to the Group.

### 19. 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:

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
Due				
In current month	<b>265,985</b>	194,760	—	—
Between one to two months	<b>6,880</b>	3,256	—	—
Between two to three months	<b>2,072</b>	1,723	—	—
Between three to four months	<b>7,807</b>	1,798	—	—
Over four months	<b>3,317</b>	6,371	—	—
	<b>286,061</b>	207,908	—	—

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 20. 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.

### 21. SHORT-TERM INVESTMENTS

	<b>Group</b>	
	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
Equity-linked notes (a)	<b>38,340</b>	—
Short-term deposits (b)	—	42,856
Trading securities listed outside Hong Kong	<b>109</b>	—
	<b>38,449</b>	42,856

Notes:

- (a) At 31st May, 2004, the Group had investments in certain equity-linked notes (the "ELNs") issued by an independent third party private company (the "Note Issuer"), in which the controlling shareholder of the LISTED CO as mentioned in Note 17(a) has a beneficial interest.

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

The ELNs or any part thereof are convertible into shares of a company listed on the Stock Exchange at a specified conversion price (subject to adjustments) at the option of the Group. The Group also had the right to demand the Note Issuer to redeem any notes not previously converted at redemption amounts equal to 103% to 105% of the principal amounts upon maturity.

- (b) At 31st May, 2003, the Group placed short-term deposits of approximately \$42,856,000 with the LISTED CO as mentioned in Note 17(a) for the Group's on-going negotiations in connection with the proposed acquisitions of two target companies. The deposits were unsecured and non-interest bearing. During the year, the whole amount was withdrawn by the Group.

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 22. 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, 2004, all the promissory notes were due for repayment in the period from June to August 2004 in which approximately \$145,929,000 was rolled over for another three months.

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

At 31st May, 2004, accounts payable, accruals and other payables were analysed as follows:

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Accounts payable	65,566	50,429	—	—
Accrued charges and other payables	56,024	65,617	1,374	1,037
	<b>121,590</b>	116,046	<b>1,374</b>	1,037

An aging analysis of accounts payable was as follows:

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Due				
In current month	52,342	42,828	—	—
Between one to two months	7,170	2,372	—	—
Between two to three months	1,633	2,274	—	—
Between three to four months	2,466	681	—	—
Over four months	1,955	2,274	—	—
	<b>65,566</b>	50,429	—	—

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 24. SHORT-TERM BANK BORROWINGS

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Unsecured:				
Bank loans and overdrafts	<b>108,235</b>	119,899	—	—
Trust receipts and import loans	<b>28,134</b>	11,918	—	—
	<b>136,369</b>	131,817	—	—

### 25. LONG-TERM LIABILITIES

Long-term liabilities comprised:

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Long-term bank borrowings (a)	<b>131,944</b>	43,118	<b>120,000</b>	—
Notes payable (b)	<b>4,072</b>	4,182	—	—
Other long-term loans (c)	<b>15,857</b>	15,972	—	—
Obligations under finance leases (d)	<b>54</b>	188	—	—
	<b>151,927</b>	63,460	<b>120,000</b>	—
Less: Current portion of long-term liabilities	<b>(25,368)</b>	(4,327)	—	—
	<b>126,559</b>	59,133	<b>120,000</b>	—

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

Notes:

(a) Long-term bank borrowings:

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Repayable within a period of				
- within one year				
- secured	20,029	—	—	—
- unsecured	4,825	3,860	—	—
- in the second year				
- secured	13,094	—	—	—
- unsecured	16,578	4,674	12,000	—
- in the third to fifth year				
- secured	—	9,462	—	—
- unsecured	77,418	4,292	108,000	—
- after the fifth year				
- secured	—	20,830	—	—
	131,944	43,118	120,000	—
Less: Amounts repayable				
within one year				
included under				
current liabilities	(24,854)	(3,860)	—	—
	107,090	39,258	120,000	—

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. The syndicated loan will be repaid by three semi-annual instalments and the first instalment will be payable in March 2006.

Pursuant to the Loan 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.

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

Notes: (Cont'd)

(b) Notes payable:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
Repayable within a period of		
- within one year, unsecured	<b>94</b>	156
- in the second year, unsecured	<b>93</b>	195
- in the third to fifth year, unsecured	<b>281</b>	936
- after the fifth year, unsecured	<b>3,604</b>	2,895
	<b>4,072</b>	4,182
Less: Amounts repayable within one year included under current liabilities	<b>(94)</b>	(156)
	<b>3,978</b>	4,026

At 31st May, 2004, notes payable not wholly repayable within five years amounted to approximately \$4,072,000 (2003: \$4,182,000).

These balances were unsecured, non-interest bearing and repayable by instalments.

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

Notes: (Cont'd)

(c) Other long-term loans:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
Repayable within a period of		
- within one year, unsecured	<b>366</b>	177
- in the second year, unsecured	<b>191</b>	569
- in the third to fifth year, unsecured	<b>635</b>	534
- after the fifth year, unsecured	<b>14,665</b>	14,692
	<b>15,857</b>	15,972
Less: Amounts repayable within one year included under current liabilities	<b>(366)</b>	(177)
	<b>15,491</b>	15,795

At 31st May, 2004, other long-term loans not wholly repayable within five years amounted to approximately \$15,673,000 (2003: \$15,385,000). Except for an amount of approximately \$1,333,000 which was interest-bearing at commercial lending rates, all other balances were unsecured, non-interest bearing and repayable by instalments.

(d) At 31st May, 2004, the Group's finance lease liabilities were repayable as follows:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
Within one year	<b>60</b>	154
In the second year	—	60
	<b>60</b>	214
Less: Future finance charges of finance leases	<b>(6)</b>	(26)
Present value of finance lease liabilities	<b>54</b>	188
The present value of finance lease liabilities was as follows:		
Within one year	<b>54</b>	134
In the second year	—	54
Present value of finance lease liabilities	<b>54</b>	188
Less: Amounts repayable within one year included under current liabilities	<b>(54)</b>	(134)
	—	54

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 26. CONVERTIBLE BONDS

	Group and Company	
	2004 \$'000	2003 \$'000
Issued during the year (a)	78,000	—
Converted to ordinary shares (b)	(11,700)	—
End of year	66,300	—
Current portion included in current liabilities	—	—
	66,300	—

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

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

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

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

The details of the Subscription Agreement were disclosed in the Company’s Announcement dated 10th February, 2004.

- (b) During the year, convertible bonds amounting to US\$1.5 million (equivalent to approximately \$11.7 million) were converted into Company’s ordinary shares as mentioned in Note 28.

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

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

	<b>Group</b>	
	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
Beginning of year	<b>(2,392)</b>	(2,392)
Recognised during the year	<b>10,749</b>	—
End of year	<b>8,357</b>	(2,392)
Provided for in respect of:		
Accelerated depreciation allowances	<b>(1,061)</b>	(2,392)
Unrealised profit in inventories of subsidiaries	<b>9,410</b>	—
Deferred income	<b>(228)</b>	—
Tax losses carried forward	<b>236</b>	—
	<b>8,357</b>	(2,392)

	<b>Company</b>	
	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
Beginning of year	—	—
Recognised during the year	<b>(20)</b>	—
End of year	<b>(20)</b>	—
Provided for in respect of:		
Deferred income	<b>(20)</b>	—
	<b>(20)</b>	—

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

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 27. DEFERRED TAX ASSETS/(LIABILITIES) (Cont'd)

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

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Deferred tax liabilities	(1,289)	(2,392)	(20)	—
Deferred tax assets	9,646	—	—	—
	<b>8,357</b>	(2,392)	<b>(20)</b>	—

- (c) At 31st May, 2004, the Group has unused tax losses of approximately \$50,704,000 (2003: \$52,954,000) available for offset against future profits. Deferred tax asset has been recognised in respect of approximately \$1,351,000 (2003: Nil) of such losses. No deferred tax asset has been recognised in respect of the remaining \$49,353,000 (2003: \$52,954,000) due to the unpredictability of future profit streams. The unrecognised tax losses will expire through 5 years to indefinitely.

### 28. SHARE CAPITAL

Share capital comprised:

	Group and Company			
	2004 Number of ordinary shares	2003	2004 \$'000	2003 \$'000
Authorised:				
Beginning of year	500,000,000	5,000,000,000	250,000	250,000
Effect of the share consolidation (a)	—	(4,500,000,000)	—	—
End of year	<b>500,000,000</b>	500,000,000	<b>250,000</b>	250,000
Issued and fully paid:				
Beginning of year	310,205,869	3,102,058,695	155,103	155,103
Effect of the share consolidation (a)	—	(2,791,852,826)	—	—
Issued upon exercise of convertible bonds (b)	7,264,160	—	3,632	—
End of year	<b>317,470,029</b>	310,205,869	<b>158,735</b>	155,103

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 28. SHARE CAPITAL (Cont'd)

Notes:

- (a) On 5th September, 2002, every 10 shares of \$0.05 each in the issued and un-issued share capital of the Company were consolidated into one share of \$0.50 each.
- (b) On 2nd March, 2004 and 21st May, 2004, the Company had issued a total of 7,264,160 new ordinary shares of \$0.5 each in the Company upon the conversion of \$11,700,000 convertible bonds as set out in Note 26. Share premium of \$8,068,000 arose from the issuance of new ordinary shares.

#### 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:

Date granted	Expiry date	At 31st May, 2004			At 31st May, 2003		
		Exercise price	No. of options	No. of options vested	Exercise price	No. of options	No. of options vested
		\$	'000	'000	\$	'000	'000
<b>Directors</b>							
09/01/2000	23/07/2008	2.24	3,550	—	2.24	3,550	2,840
12/01/2000	23/07/2008	2.24	250	—	2.24	250	200
17/01/2000	23/07/2008	2.24	250	—	2.24	250	200
			4,050	—		4,050	3,240
<b>Employees under continuous contracts (excluding Directors)</b>							
07/01/2000 to 31/01/2000	23/07/2008	2.24	9,075	—	2.24	9,075	7,260
			9,075	—		9,075	7,260
			13,125	—		13,125	10,500

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

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 29. RESERVES

#### Group

Movements of reserves for the Group for the year ended 31st May, 2004 were as follows:

	Exchange						Total
	Share	translation	Retained		Revaluation	Other	
	premium	reserve	profits	Goodwill	reserve	reserve	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Beginning of year	31,227	7,731	176,096	68,814	17,559	69	301,496
Share premium arising from conversion of convertible bonds (Note 28(b))	8,068	—	—	—	—	—	8,068
Exchange differences arising on translation of overseas subsidiaries' accounts	—	4,623	—	—	—	—	4,623
Deficit on revaluation of non-trading securities	—	—	—	—	(112)	—	(112)
Profit for the year	—	—	68,495	—	—	—	68,495
2003 final dividend paid	—	—	(12,408)	—	—	—	(12,408)
Interim dividend paid	—	—	(17,300)	—	—	—	(17,300)
End of year	39,295	12,354	214,883	68,814	17,447	69	352,862
Representing:							
2004 Final dividend proposed			13,272				
Others			201,611				
Retained profits at end of year			214,883				

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 29. RESERVES (Cont'd)

#### Group (Cont'd)

Movements of reserves for the Group for the year ended 31st May, 2003 were as follows:

	Exchange		Retained	Goodwill	Revaluation	Other	Total
	Share premium	translation reserve					
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Beginning of year	31,227	(18,419)	136,769	68,814	32,314	70	250,775
Utilisation of fixed assets fund	—	—	—	—	—	(1)	(1)
Exchange differences arising on translation of overseas subsidiaries' accounts	—	26,150	—	—	—	—	26,150
Surplus on revaluation of non-trading securities	—	—	—	—	1,428	—	1,428
Transferred to profit and loss account upon disposal of non-trading securities	—	—	—	—	(16,183)	—	(16,183)
Profit for the year	—	—	57,939	—	—	—	57,939
Interim dividend paid	—	—	(18,612)	—	—	—	(18,612)
End of year	31,227	7,731	176,096	68,814	17,559	69	301,496
Representing:							
2003 Final dividend proposed			12,408				
Others			163,688				
Retained profits at end of year			176,096				

At 31st May, 2003 and 2004, all the reserves of the Group were attributable to the Company and its subsidiaries.

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 29. RESERVES (Cont'd)

#### Company

Movements of reserves for the Company for the year ended 31st May, 2004 were as follows:

	<b>Share premium \$'000</b>	<b>Retained profits \$'000</b>	<b>Total \$'000</b>
Beginning of year	<b>31,227</b>	<b>14,423</b>	<b>45,650</b>
Share premium arising from conversion of convertible bonds	<b>8,068</b>	—	<b>8,068</b>
Profit for the year	—	<b>31,733</b>	<b>31,733</b>
2003 final dividend paid	—	<b>(12,408)</b>	<b>(12,408)</b>
Interim dividend paid	—	<b>(17,300)</b>	<b>(17,300)</b>
End of year	<b>39,295</b>	<b>16,448</b>	<b>55,743</b>
Representing:			
2004 Final dividend proposed		<b>13,272</b>	
Others		<b>3,176</b>	
Retained profits at end of year		<b>16,448</b>	

Movement of reserves for the Company for the year ended 31st May, 2003 were as follows:

	Share premium \$'000	(Accumulated losses)/ Retained profits \$'000	Total \$'000
Beginning of year	31,227	(14,822)	16,405
Profit for the year	—	47,857	47,857
Interim dividend paid	—	(18,612)	(18,612)
End of year	31,227	14,423	45,650
Representing:			
2003 Final dividend proposed		12,408	
Others		2,015	
Retained profits at end of year		14,423	

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 30. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	<b>Year ended 31st May, 2004 \$'000</b>	Year ended 31st May, 2003 \$'000
Profit before taxation	<b>63,479</b>	61,181
Depreciation	<b>10,225</b>	10,308
Amortisation of intangible assets	<b>9,289</b>	2,476
(Gain)/Loss on disposal of fixed assets	<b>(67)</b>	35
Loss on revaluation of fixed assets	—	43
Gain on disposal of unlisted non-trading securities	—	(15,500)
(Gain)/Loss on revaluation of listed trading securities	<b>(3)</b>	2
Redemption premium received on maturity of equity-linked notes	<b>(1,834)</b>	(1,060)
Interest income	<b>(12,847)</b>	(14,480)
Interest expense	<b>14,073</b>	12,573
Operating profit before working capital changes	<b>82,315</b>	55,578
(Increase)/Decrease in inventories	<b>(1,737)</b>	18,587
(Increase)/Decrease in due from fellow subsidiaries	<b>(12,269)</b>	54,414
Increase in due from a related company	<b>(766)</b>	(461)
Increase in accounts receivable	<b>(155,190)</b>	(121,646)
Decrease in deposits, prepayments and other receivables	<b>47,257</b>	53,231
Decrease in accounts payable, accruals and other payables	<b>(10,165)</b>	(23,454)
Increase/(Decrease) in bills payable	<b>22,084</b>	(14,933)
Decrease in due to an associated company	<b>(37)</b>	—
Increase in due to fellow subsidiaries	<b>23,174</b>	102
Increase in due to a related company	<b>1,242</b>	—
Increase in due to Directors	<b>120</b>	50
Effect of foreign exchange rate changes	<b>(2,815)</b>	(11,269)
Net cash (outflow)/inflow generated from operations	<b>(6,787)</b>	10,199

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

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

	Year ended 31st May, 2004										2003
	Share	Notes									
	capital	payable									
	(including	Long-term	Short-term	Finance	and other						
share	Other	Dividend	bank	bank	lease	long-term	Convertible	Minority	Total	Total	
premium)	reserve	payable	borrowings	borrowings	obligations	loans	bonds	interests			
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Beginning of year	186,330	69	—	43,118	131,817	188	20,154	—	28	381,704	340,814
Net cash inflow from											
financing	—	—	(29,708)	87,026	2,689	(134)	(845)	78,000	—	137,028	3,050
Write-back of interest of											
notes payable	—	—	—	—	—	—	—	—	—	—	(653)
Conversion of convertible bonds	11,700	—	—	—	—	—	—	(11,700)	—	—	—
Share of profit by											
minority shareholders	—	—	—	—	—	—	—	—	1	1	1
Share of exchange translation											
reserve by minority											
shareholders	—	—	—	—	—	—	—	—	12	12	—
2003 final dividend paid	—	—	12,408	—	—	—	—	—	—	12,408	—
Interim dividend paid	—	—	17,300	—	—	—	—	—	—	17,300	18,612
Exchange adjustments	—	—	—	1,800	1,863	—	620	—	—	4,283	19,880
End of year	198,030	69	—	131,944	136,369	54	19,929	66,300	41	552,736	381,704

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(c) Acquisition of business:

	<b>Year ended 31st May, 2004 \$'000</b>	Year ended 31st May, 2003 \$'000
Net liabilities acquired:		
Inventories	<b>5,844</b>	—
Deposits, prepayment and other receivables	<b>1,323</b>	—
Accounts payable, accruals and other payables	<b>(12,514)</b>	—
	<b>(5,347)</b>	—
Goodwill	<b>84,142</b>	—
Consideration	<b>78,795</b>	—
Satisfied by:		
Set off against accounts receivable	<b>78,795</b>	—

(d) Analysis of cash and cash equivalents:

	<b>2004 \$'000</b>	2003 \$'000
Promissory notes ( <i>Note 22</i> )	<b>164,568</b>	72,518
Cash and bank balances	<b>35,267</b>	18,961
	<b>199,835</b>	91,479

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 31. 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 \$538,000 (2003: \$521,000). The assets of the fund were held separately from those of the Group and were managed by independent professional fund managers.

Forfeited contributions totalling \$26,000 (2003: \$355,000) were utilised during the year.

### 32. CONTINGENT LIABILITIES

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

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Discounted bills with recourse	423	14,821	—	—
Corporate guarantees provided to financial institutions in respect of facilities granted to Group companies (Note 15d)	—	—	597,226	516,971
Corporate guarantees provided to other institutions in respect of facilities granted to Group companies (Note 15d)	—	—	45,864	45,296

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

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 33. BANKING FACILITIES

At 31st May, 2004, 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.

### 34. COMMITMENTS

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

	2004		2003	
	Leasehold land and buildings \$'000	Furniture and equipment \$'000	Leasehold land and buildings \$'000	Furniture and equipment \$'000
Payable:				
- Not later than one year	2,980	1,209	4,033	1,256
- Later than one year and not later than five years	7,948	478	8,815	1,364
- Later than five years	4,615	—	5,328	—
	<b>15,543</b>	<b>1,687</b>	18,176	2,620

(b) At 31st May, 2004, the Group had future aggregate minimum payments under license agreements as follows:

	2004 \$'000	2003 \$'000
Payable:		
- Not later than one year	29,194	28,828
- Later than one year and not later than five years	94,933	70,175
- Later than five years	206,569	203,161
	<b>330,696</b>	302,164

## **NOTES TO THE ACCOUNTS**

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### **34. COMMITMENTS** *(Cont'd)*

(c) Off-balance sheet financial instruments

During the year, the Group entered into forward exchange and gold contracts in order to hedge firmly against committed commercial transactions. The contracts were arranged with commercial banks and other institutions. In addition, the Group has also bought and sold some currency options. The Group had, at 31st May, 2004, outstanding forward foreign contracts to sell Euro Dollar with a notional principal value of approximately EUR340,000 (2003: EUR2,437,000) equivalent, outstanding forward gold contracts to purchase gold with a notional principal value of approximately USD4,324,000 (2003: Nil) equivalent, and written currency options to sell Euro Dollar and purchase US Dollar with notional principal values of EUR6,800,000 and USD1,000,000 (2003: EUR8,950,000) equivalent respectively. Such outstanding contracts were scheduled to settle or expire between June 2004 to November 2004.

Save as disclosed above, neither the Group nor the Company had any significant commitments.

### **35. 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.

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

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

	<b>Year ended 31st May, 2004 \$'000</b>	Year ended 31st May, 2003 \$'000
<b>Sales of goods/services <sup>(5)</sup></b>		
<b>(“Trading transactions”)</b>		
Comtesse Accessoires GmbH & Co. <sup>(1)</sup>	<b>9</b>	—
Haru Japan Corporation, Inc <sup>(1)</sup>	—	195
Eco-Haru (Far East) Limited <sup>(1)</sup>	<b>174</b>	1,289
Egana-Haru Mfr. Corp. Limited <sup>(1)</sup>	<b>676</b>	53
EganaGoldpfeil Benelux Time B.V. <sup>(1)</sup>	<b>8,864</b>	—
EganaGoldpfeil	<b>5</b>	1
EganaGoldpfeil (Switzerland) Limited <sup>(1)</sup> (Formerly known as Egana Suisse SA)	<b>4,319</b>	3,987
EganaGoldpfeil Italia s.r.l. <sup>(1)</sup> (Formerly known as Egana Italia s.r.l.)	<b>43</b>	(532)
Goldpfeil Guam, Inc. <sup>(1)</sup>	<b>1</b>	26
EganaGoldpfeil (Japan) Ltd. <sup>(1)</sup> (Formerly known as Goldpfeil Company of Japan, Limited)	—	22
Goldpfeil Geneve SA <sup>(1)</sup>	—	153
Zeitmesstechnik GmbH <sup>(1)</sup>	<b>39</b>	4
<b>Purchases of goods <sup>(6)</sup></b>		
<b>(“Trading transactions”)</b>		
Egana of Switzerland (Far East) Limited <sup>(1)</sup>	<b>39</b>	21
EganaGoldpfeil Benelux Time B.V. <sup>(1)</sup>	<b>878</b>	—
Egana Deutschland GmbH <sup>(1)</sup>	—	54
Egana-Haru Mfr. Corp. Limited <sup>(1)</sup>	<b>1,742</b>	882
European Technology & Logistic Center GmbH <sup>(1)</sup>	<b>9</b>	—
Bartelli Leather Products Limited <sup>(1)</sup>	<b>178</b>	27
Zeitmesstechnik GmbH <sup>(1)</sup>	<b>2,700</b>	1,846
Junghans Uhren GmbH <sup>(1)</sup>	—	9
Goldpfeil Distribution and Services Limited <sup>(1)</sup>	—	1
Egana Asial Company Limited <sup>(1)</sup>	—	1

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 35. 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)

	<b>Year ended 31st May, 2004 \$'000</b>	Year ended 31st May, 2003 \$'000
<b>Rental income <sup>(7)</sup></b>		
Kai-Yin Lo Limited <sup>(1)</sup>	—	102
<b>Interest income</b>		
Centreline Group Limited <sup>(1)</sup>	<b>1,719</b>	2,334
<b>Allocation of operating costs <sup>(8)</sup></b>		
Egana Deutschland GmbH <sup>(1)</sup>	<b>108,559</b>	68,101
<b>Sub-tenancy agreement <sup>(7)</sup></b>		
Egana Deutschland GmbH <sup>(1)</sup>	<b>2,720</b>	4,266
<b>Consultancy fee expenses</b>		
International Taxation Advisory Services Limited <sup>(3)</sup>	<b>1,449</b>	1,072
<b>Interest expenses</b>		
EganaGoldpfeil Europe (Holdings) GmbH <sup>(1)</sup>	—	50
Rossolini Limited <sup>(4)</sup>	<b>8</b>	8
<b>Rental expenses <sup>(7)</sup></b>		
Eco-Haru Property Investments Limited <sup>(1)</sup>	<b>38</b>	38
EganaGoldpfeil Benelux Time B.V. <sup>(1)</sup>	<b>220</b>	—
<b>Management fee expenses <sup>(8)</sup></b>		
EganaGoldpfeil	<b>6,705</b>	7,621
Egana-Haru Mfr. Corp. Limited <sup>(1)</sup>	<b>3,529</b>	3,231
<b>Royalty fee expenses <sup>(8)</sup></b>		
P.C. International Marketing Limited <sup>(1)</sup>	<b>8,659</b>	8,325
Goldpfeil GmbH <sup>(1)</sup> (Formerly known as Goldpfeil AG)	<b>1,422</b>	1,236
Egana Deutschland GmbH <sup>(1)</sup>	<b>199</b>	431
Bartelli Leather Products Limited <sup>(1)</sup>	<b>6,503</b>	6,742
JOOP! GmbH <sup>(2)</sup>	<b>6,100</b>	—

## NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

*Notes:*

- (1) A subsidiary of EganaGoldpfeil which is not within the Group ("fellow subsidiary").
  - (2) An associated company of EganaGoldpfeil which is not within the Group ("related company").
  - (3) A company in which Mr. David Wai Kwong WONG, Non-executive Director of EganaGoldpfeil and the Company, is 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 35% to 275%.
  - (6) Purchase from related parties were determined on a cost plus basis with a mark-up of approximately 0% to 100%.
  - (7) Rental income/expenses received from/charged to related companies was based upon the terms specified in the rental agreements.
  - (8) Allocation of operating costs, management fee expenses and royalty expenses charged by P.C. International Marketing Limited and Egana Deutschland GmbH were covered by the agreements enumerated on pages 5 to 10 of the Company's Circular dated 11th September, 2001. 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 35(a) above), all of which were also deemed to be connected parties pursuant to 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 a cost sharing agreement entered into between the Group companies and their fellow subsidiaries outside the Group (see Note 35(a)(8) for details).
- (d) Except for an amount due to an associated company of approximately \$91,000 (2003: \$91,000) (see Note 16) and a royalty deposit paid to a fellow subsidiary of approximately \$14,079,000 (2003: \$20,098,000) (see Note 20) 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.

## **NOTES TO THE ACCOUNTS**

(Amounts expressed in Hong Kong dollars unless otherwise stated)

---

### **36. SUBSEQUENT EVENT**

Subsequent to 31st May, 2004, the Company issued and allotted shares to the bondholder as described in Note 26, resulting in an increase in shareholders' funds of approximately \$15,600,000.

### **37. APPROVAL OF THE ACCOUNTS**

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