

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

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

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

The adoption of the above SSAPs does not have material impact on the accounts of the Group except that certain presentation changes have been made to the comparative figures upon the adoption of SSAP 1 (revised) and SSAP 15 (revised).

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(b) Group accounting

(i) Consolidation

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

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

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

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

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.

(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.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

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

(iii) Translation of foreign currencies

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.

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

(c) Fixed assets

(i) Leasehold land and buildings

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

(ii) Freehold land and buildings

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

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(c) Fixed assets (Cont'd)

(iii) Other fixed assets

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

(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.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

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

(v) Impairment and gain or loss on sale *(Cont'd)*

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.

(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.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(e) Intangible assets

(i) Goodwill/Negative goodwill

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

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

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.

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)*

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.

(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.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(e) Intangible assets (Cont'd)

(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.

(f) Investments in 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.

(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.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(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.

(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.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(j) Employee benefits *(Cont'd)*

(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.

(k) Deferred taxation

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

(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 benefits is probable. When inflow is virtually certain, an asset is recognised.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(m) Turnover

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

(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.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(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.

(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 expenditure 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 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 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 distribution of jewellery and consumer products other than timepieces, and holding of strategic investments.

(a) Primary reporting format - business segments

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

The Group was organised on a worldwide basis into two main business segments:

- Jewellery - design, manufacturing, distribution and trading of jewellery products.
- Strategic investments - 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 distributors in Greater China for furtherance of its business penetration in Greater China.

	Year ended 31st May, 2003		
	Jewellery	Strategic	Group
	products	investments	
	\$'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

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. TURNOVER AND SEGMENT INFORMATION (Cont'd)

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

	17-month period ended 31st May, 2002		
	Jewellery	Strategic	Group
	products	investments	
	\$'000	\$'000	\$'000
Turnover	855,738	—	855,738
Dividend income	—	2,625	2,625
Segment results	65,568	2,625	68,193
Finance costs			(22,972)
Profit before taxation			45,221
Taxation			(3,444)
Profit after taxation			41,777
Minority interests			509
Profit attributable to shareholders			42,286
Segment assets	659,883	97,647	757,530
Interest in an associated company	(57)	—	(57)
Total assets	659,826	97,647	757,473
Segment liabilities	(351,568)	—	(351,568)
Total liabilities	(351,568)	—	(351,568)
Capital expenditure	9,508	—	9,508
Depreciation	14,304	—	14,304
Amortisation	4,336	—	4,336
Bad debt expense	4,979	—	4,979

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 North 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, 2003			At 31st May,
	Turnover	Segment results	Capital expenditure	2003
				Total assets
				\$'000
Europe	562,997	86,566	16,395	337,411
North America	55,731	(19,422)	3,205	47,961
Asia Pacific	99,654	9,782	9,138	445,798
	718,382	76,926	28,738	831,170
Interest in an associated company				(59)
Total assets				831,111

	17-month period ended			At 31st May,
	Turnover	Segment results	Capital expenditure	31st May, 2002
				Total assets
				\$'000
Europe	694,824	80,163	1,801	297,655
North America	112,339	(16,288)	2,683	65,673
Asia Pacific	48,575	4,318	5,024	394,202
	855,738	68,193	9,508	757,530
Interest in an associated company				(57)
Total assets				757,473

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

4. OTHER REVENUES

	Year ended 31st May, 2003 \$'000	17-month period ended 31st May, 2002 \$'000
Rental income	102	241
Interest income	14,480	11,913
Management fees	4	6
Gain on disposal of unlisted non-trading securities (<i>Note 17(b)</i>)	15,500	—
Redemption premium received on maturity of equity-linked notes (<i>Note 21</i>)	1,060	—
Gain on disposal of fixed assets	—	91
Gain on disposal of intangible assets	—	2,696
Exchange gain, net	—	1,164
Consideration received in connection with the sharing of certain information of customer portfolio with a third party	—	10,234
Negative goodwill on acquisition of a subsidiary	—	144
Dividend income from non-trading securities	—	2,625
Others	2,216	5,228
	33,362	34,342

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

5. OPERATING PROFIT

Operating profit was stated after crediting and charging the following:

	Year ended 31st May, 2003 \$'000	17-month period ended 31st May, 2002 \$'000
Crediting:		
Rental income	102	241
Interest income from		
- bank deposits	3,833	5,758
- promissory notes	7,978	1,116
- equity-linked notes	244	—
- deposit with a fellow subsidiary (<i>Note 20</i>)	2,334	4,229
- deposit with a third party	—	564
- advance to a supplier	—	224
- others	91	22
Gain on disposal of		
- fixed assets	—	91
- intangible assets	—	2,696
- unlisted non-trading securities	15,500	—
Redemption premium received on maturity of equity-linked notes	1,060	—
Consideration received in connection with the sharing of certain information of the Group's customer portfolio with a third party	—	10,234
Negative goodwill on acquisition of a subsidiary	—	144
Dividend income from non-trading securities	—	2,625
Exchange gain, net	—	1,164

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

5. OPERATING PROFIT (Cont'd)

	Year ended 31st May, 2003 \$'000	17-month period ended 31st May, 2002 \$'000
Charging:		
Depreciation:		
- owned fixed assets	10,260	14,302
- leased fixed assets	48	2
Loss on revaluation of fixed assets	43	125
Loss on revaluation of listed non-trading securities	2	—
Amortisation of intangible assets	2,476	4,336
Loss on disposal of fixed assets	35	—
Auditors' remuneration		
- current year/period	2,514	4,071
- prior year under-provision	290	2
Operating lease rentals		
- leasehold land and buildings	9,065	12,365
- furniture and equipment	798	609
Bad debt expense	3,295	4,979
Exchange loss, net (a)	1,771	—
Staff costs (including Directors' and senior executives' emoluments) (Note 11)	88,341	109,364

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, 2003, the Group's outstanding written foreign currency options with a notional principal value of EUR8,950,000 (2002: EUR2,000,000) equivalent were marked to market in accordance with the Group's accounting policy on currency options, resulting in an unrealised exchange loss of approximately \$9,095,000 (2002: \$113,000).

The remaining credit amount of approximately \$7,324,000 was related to other foreign currency transactions/translation gain.

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

6. FINANCE COSTS

	Year ended 31st May, 2003 \$'000	17-month period ended 31st May, 2002 \$'000
Interest on bank borrowings		
wholly repayable within five years	12,521	20,178
Interest on bank borrowings not		
wholly repayable within five years	558	503
(Write-back of interest)/Interest on notes payable (a)	(653)	653
Interest on other loans	83	14
Interest element of finance leases	6	15
Interest on amount due from a fellow subsidiary	50	—
Interest on advance from an associated company	8	11
Bank charges	3,172	1,598
	15,745	22,972

Note:

- (a) During the year, due to negotiation of repayment arrangement in respect of all notes payable as shown in Note 25(b), all previous interest accrued on such notes payable was waived by the lender. Hence, related accrual for interest expense in prior year were written back in the current year.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

7. TAXATION

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

	Year ended 31st May, 2003 \$'000	17-month period ended 31st May, 2002 \$'000
The Company and its subsidiaries:		
Current taxation		
Hong Kong profits tax		
- Provision for the year/period	2,500	2,500
Overseas taxation		
- Provision for the year/period	974	954
- Over-provision in prior years	(233)	(10)
	3,241	3,444

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit arising in or derived from Hong Kong for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year provided by subsidiaries with overseas operations at the rates of taxation prevailing in the countries in which the subsidiaries operated.

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 \$47,857,000 (2002: a loss of \$13,574,000).

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

9. DIVIDENDS

	Year ended 31st May, 2003 \$'000	17-month period ended 31st May, 2002 \$'000
Interim, paid, of 6.00 cents (2002: 0.15 cent) per ordinary share	18,612	4,653
Final, proposed, of 4.00 cents (2002: Nil) per ordinary share	12,408	—
	31,020	4,653

During the year, an interim dividend of approximately \$18,612,000 (2002: \$4,653,000) was declared and paid on 29th April, 2003.

At a meeting held on 29th September, 2003, 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, 2004.

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 \$57,939,000 (2002: \$42,286,000) and the weighted average number of ordinary shares of approximately 310,206,000 (2002: 310,204,000) in issue during the year.

(b) Diluted earnings per share

During the year and prior period, the Company's share options exercise price was above the average fair value of one ordinary share, and thus there were no dilutive potential ordinary shares.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

	Year ended 31st May, 2003 \$'000	17-month period ended 31st May, 2002 \$'000
Wages and salaries	87,593	108,651
Provision for long service payment	582	—
Staff retirement scheme contributions (<i>Note 30</i>)	521	967
Less: Refund of forfeited contributions (<i>Note 30</i>)	(355)	(254)
	88,341	109,364

12. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Directors' emoluments

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

	Year ended 31st May, 2003 \$'000	17-month period ended 31st May, 2002 \$'000
Fees for Executive Directors	—	—
Fees for Non-executive Directors	—	—
Other emoluments for Executive Directors		
- Basic salaries, housing allowances, other allowances and benefits in kind	1,390	3,457
- Contributions to pension schemes for Directors	48	68
- Bonus*	—	21
Other emoluments for Non-executive Directors	394	597
	1,832	4,143

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:

	Year ended 31st May, 2003	Group 17-month period ended 31st May, 2002
Executive Directors		
- Nil - \$1,000,000	6	6
- \$1,000,001 - \$1,500,000	—	1
	6	7
Non-executive Directors		
- Nil - \$1,000,000	4	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.

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

(i) During the year, the five highest-paid individuals did not include any Director (2002: Nil).

The emoluments of the five (2002: five) highest-paid individuals were analysed as below:

	Year ended 31st May, 2003 \$'000	Group 17-month period ended 31st May, 2002 \$'000
Basic salaries, housing allowances, other allowances and benefits in kind	5,681	8,333
Contributions to pension schemes	75	98
Bonuses	318	37
	6,074	8,468

(ii) Analysis of emoluments paid to the aforementioned five (2002: five) highest-paid individuals by number of individuals and emolument ranges was as follows:

	Year ended 31st May, 2003	Group 17-month period ended 31st May, 2002
- Nil - \$1,000,000	3	—
- \$1,000,001 - \$1,500,000	1	1
- \$1,500,001 - \$2,000,000	1	3
- \$2,000,001 - \$2,500,000	—	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.

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
Cost or valuation							
At 1st June, 2002	2,027	6,550	11,535	35,155	16,175	1,538	72,980
Exchange adjustments	140	—	27	—	2,226	321	2,714
Additions	—	—	3,288	4,666	10,371	1,225	19,550
Revaluation	—	(250)	—	—	—	—	(250)
Disposals	—	—	—	—	(123)	(111)	(234)
At 31st May, 2003	2,167	6,300	14,850	39,821	28,649	2,973	94,760
Accumulated depreciation							
At 1st June, 2002	130	61	10,172	24,855	7,475	460	43,153
Exchange adjustments	38	—	24	—	1,030	105	1,197
Charge for the year	59	146	742	5,600	3,377	384	10,308
Write-back on revaluation	—	(207)	—	—	—	—	(207)
Disposals	—	—	—	—	(120)	(38)	(158)
At 31st May, 2003	227	—	10,938	30,455	11,762	911	54,293
Net book value							
At 31st May, 2003	1,940	6,300	3,912	9,366	16,887	2,062	40,467
At 31st May, 2002	1,897	6,489	1,363	10,300	8,700	1,078	29,827

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

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, 2003 would have been approximately \$7,933,000 (2002: \$8,129,000).

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:

	2003	2002
	\$'000	\$'000
Held in Hong Kong		
- under leases between 10 to 50 years (see (a) above)	6,300	6,489
Held outside Hong Kong		
- freehold	1,940	1,897
	8,240	8,386

(c) The net book value of fixed assets included motor vehicles amounted to approximately \$200,000 (2002: \$237,000) held under finance leases.

14. INTANGIBLE ASSETS

Group

	Licences and Development			Goodwill	Total
	Know-how	trademarks	costs		
	\$'000	\$'000	\$'000	\$'000	\$'000
Cost					
At 1st June, 2002	14,034	15,810	—	8,223	38,067
Exchange adjustments	1,071	257	—	2,114	3,442
Additions	7,638	1,069	481	—	9,188
Write-off	—	(88)	—	—	(88)
At 31st May, 2003	22,743	17,048	481	10,337	50,609
Accumulated amortisation					
At 1st June, 2002	5,399	2,065	—	2,605	10,069
Exchange adjustments	—	110	—	754	864
Charge for the year	901	971	—	604	2,476
Write-off	—	(88)	—	—	(88)
At 31st May, 2003	6,300	3,058	—	3,963	13,321
Net book value					
At 31st May, 2003	16,443	13,990	481	6,374	37,288
At 31st May, 2002	8,635	13,745	—	5,618	27,998

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:

	Company	
	2003	2002
	\$'000	\$'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 (2002: \$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 \$416,000 (2002: \$390,000) which were non-interest bearing, the remaining balances due from subsidiaries bore interests at prevailing commercial rates.
- (c) The amount due to a subsidiary was unsecured, non-interest bearing and repayable on demand.
- (d) At 31st May, 2003, the Company provided corporate guarantees of approximately \$562,267,000 (2002: \$455,662,000) 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, 2003.

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, 2003 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
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 (a), #	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

Notes:

(a) A new subsidiary formed in April 2003.

Audited by certified public accountants other than PricewaterhouseCoopers.

* 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:

	Group	
	2003	2002
	\$'000	\$'000
Share of net assets other than goodwill		
- Unlisted shares	32	32
Due to an associated company (<i>Note 34(d)</i>)	(91)	(89)
	(59)	(57)

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, 2003 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

17. INVESTMENTS IN NON-TRADING SECURITIES

Investments in non-trading securities comprised:

	Group	
	2003	2002
	\$'000	\$'000
Equity securities:		
Listed, other than in Hong Kong, at fair value	101	83
Unlisted, at fair value		
- a private closed-end fund (<i>a</i>)	26,254	26,197
- an unlisted company (<i>b</i>)	37,055	71,367
	63,410	97,647

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

Notes:

- (a) At 31st May, 2003, the Group had a strategic investment of approximately \$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, 2003, the fund was stated at fair value which was determined by the Directors and a revaluation surplus of approximately \$4,000 (2002: a deficit of \$53,000) 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) In May 2003, the Group disposed of certain equity interests in an unlisted company for a consideration of \$35,000,000 and a gain on disposal of \$15,500,000 was recognised during the year. At 31st May, 2003, the investment in the unlisted company was stated at fair value which was determined by the Directors and a revaluation surplus of approximately \$17,555,000 (2002: \$32,367,000) was recorded in the revaluation reserve.

18. INVENTORIES

	Group	
	2003	2002
	\$'000	\$'000
Raw materials	60,610	36,987
Work-in-progress	28,231	15,236
Finished goods	113,097	136,430
	201,938	188,653
Less: Provision for obsolescence	(8,450)	(9,440)
	193,488	179,213

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

At 31st May, 2003, inventories of approximately \$44,417,000 (2002: Nil) were pledged as security for banking facilities granted to a German subsidiary of the Group.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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:

	Group		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Due				
In current month	194,760	53,902	—	—
Between one to two months	3,256	4,904	—	—
Between two to three months	1,723	4,177	—	—
Between three to four months	1,798	1,093	—	—
Over four months	6,371	5,127	—	—
	207,908	69,203	—	—

20. ROYALTY DEPOSIT

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 INVESTMENT

The Group placed short-term deposits of approximately \$42,856,000 (2002: Nil) 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. Subsequent to 31st May, 2003, the whole amount was withdrawn by the Group.

During the year, the Group had investments of approximately \$26,500,000 (2002: \$8,500,000) in short-term equity-linked notes (the "ELNs") issued by an independent third party private company (the "Note Issuer"), in which the controlling shareholder of the LISTED CO as mentioned above has a beneficial interest.

The ELNs were unsecured, bore interest at 3% per annum and were redeemable by the Note Issuer on the maturity dates which were four months after the issuance dates. During the year, the ELNs were redeemed by the Note Issuer at redemption amounts equal to 104% of the principal amounts upon maturity. Hence, a redemption premium of \$1,060,000 was recorded as other revenues (see Note 4).

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, 2003, all the promissory notes were due for repayment in the period from June to August 2003 in which approximately \$20,354,000 was rolled over for another three months and approximately \$8,457,000 was rolled over for another month upon maturity.

23. ACCOUNTS PAYABLE, ACCRUALS AND OTHER PAYABLES

At 31st May, 2003, accounts payable, accruals and other payables were analysed as follows:

	Group		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Accounts payable	50,429	73,466	—	—
Accrued charges and other payables	65,617	49,384	1,037	585
	116,046	122,850	1,037	585

An aging analysis of accounts payable was as follows:

	Group		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Due				
In current month	42,828	63,900	—	—
Between one to two months	2,372	3,268	—	—
Between two to three months	2,274	1,048	—	—
Between three to four months	681	418	—	—
Over four months	2,274	4,832	—	—
	50,429	73,466	—	—

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

24. SHORT-TERM BANK BORROWINGS

	Group		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Bank loans and overdrafts	119,899	120,252	—	—
Trust receipts and import loans	11,918	24,294	—	—
	131,817	144,546	—	—
Secured	—	6,087	—	—
Unsecured	131,817	138,459	—	—

25. LONG-TERM LIABILITIES

Long-term liabilities comprised:

	Group	
	2003 \$'000	2002 \$'000
Long-term bank borrowings (a)	43,118	3,230
Notes payable (b)	4,182	4,938
Other long-term loans (c)	15,972	1,390
Obligations under finance leases (d)	188	283
	63,460	9,841
Less: Current portion of long-term liabilities	(4,327)	(3,281)
	59,133	6,560

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	
	2003	2002
	\$'000	\$'000
Repayable within a period of		
- within one year		
- secured	—	524
- unsecured	3,860	—
- in the second year		
- secured	—	587
- unsecured	4,674	—
- in the third to fifth year		
- secured	9,462	1,692
- unsecured	4,292	—
- after the fifth year		
- secured	20,830	427
- unsecured	—	—
	43,118	3,230
Less: Amounts repayable within one year included under current liabilities	(3,860)	(524)
	39,258	2,706

At 31st May, 2003, long-term bank borrowings not wholly repayable within five years amounted to approximately \$20,830,000 (2002: \$3,230,000). These balances were secured, interest-bearing at commercial rates and were 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):

(b) Notes payable:

	Group	
	2003	2002
	\$'000	\$'000
Repayable within a period of		
- within one year, unsecured	156	2,461
- in the second year, unsecured	195	2,477
- in the third to fifth year, unsecured	936	—
- after the fifth year, unsecured	2,895	—
	4,182	4,938
Less: Amounts repayable within one year included under current liabilities	(156)	(2,461)
	4,026	2,477

At 31st May, 2003, notes payable not wholly repayable within five years amounted to approximately \$4,182,000 (2002: Nil). These balances were unsecured, non-interest bearing and repayable by instalments.

(c) Other long-term loans:

	Group	
	2003	2002
	\$'000	\$'000
Repayable within a period of		
- within one year, unsecured	177	120
- in the second year, unsecured	569	127
- in the third to fifth year, unsecured	534	425
- after the fifth year, unsecured	14,692	718
	15,972	1,390
Less: Amounts repayable within one year included under current liabilities	(177)	(120)
	15,795	1,270

At 31st May, 2003, other long-term loans not wholly repayable within five years amounted to approximately \$15,385,000 (2002: \$1,390,000). 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):

(d) At 31st May, 2003, the Group's finance lease liabilities were repayable as follows:

	Group	
	2003	2002
	\$'000	\$'000
Within one year	154	182
In the second year	60	62
In the third to fifth year	—	57
	214	301
Less: Future finance charges of finance leases	(26)	(18)
Present value of finance lease liabilities	188	283

The present value of finance lease liabilities was as follows:

Within one year	134	176
In the second year	54	56
In the third to fifth year	—	51
Present value of finance lease liabilities	188	283
Less: Amounts repayable within one year included under current liabilities	(134)	(176)
	54	107

26. DEFERRED TAXATION

Deferred taxation represented the taxation effect of accelerated depreciation allowances, amounting to approximately \$2,392,000 (2002: \$2,392,000).

There was no significant unprovided deferred taxation at 31st May, 2003.

Deferred taxation is not provided on the revaluation surplus because the realisation of the surplus will not be subject to taxation.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

27. SHARE CAPITAL

Share capital comprised:

	2003	2002	2003	2002
	Number of ordinary shares		\$'000	\$'000
Authorised:				
Beginning of year/period	5,000,000,000	5,000,000,000	250,000	250,000
Effect of the Share Consolidation (i)	(4,500,000,000)	—	—	—
End of year/period	500,000,000	5,000,000,000	250,000	250,000
Issued and fully paid:				
Beginning of year/period	3,102,058,695	3,102,003,971	155,103	155,100
Effect of the Share Consolidation (i)	(2,791,852,826)	—	—	—
Issued upon exercise of warrants	—	54,724	—	3
End of year/period	310,205,869	3,102,058,695	155,103	155,103

Note:

- (i) On 5th September, 2002, every 10 shares of \$0.05 each in the issued and unissued share capital of the Company were consolidated into one share of \$0.50 each (the "Share Consolidation").

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.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

27. SHARE CAPITAL (Cont'd)

Share options (Cont'd)

Details of outstanding share options:

Date granted	Expiry date	At 31st May, 2003 after the Share Consolidation			At 31st May, 2002 before the Share Consolidation		
		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	2,840	0.224	35,500	21,300
12/01/2000	23/07/2008	2.24	250	200	0.224	2,500	1,500
17/01/2000	23/07/2008	2.24	250	200	0.224	2,500	1,500
			4,050	3,240		40,500	24,300
Employees under continuous contracts (excluding Directors)							
07/01/2000 to 31/01/2000	23/07/2008	2.24	9,075	7,260	0.224	90,750	54,450
			9,075	7,260		90,750	54,450
			13,125	10,500		131,250	78,750

No share options were granted (2002: Nil), exercised (2002: Nil), lapsed (2002: 1,500,000) or cancelled (2002: Nil) during the year.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. RESERVES

Group

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

	Exchange		Retained profits	Goodwill	Revaluation reserve	Other reserve	Total
	Share premium	translation reserve					
	\$'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			<u>176,096</u>				

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. RESERVES (Cont'd)

Group (Cont'd)

Movements of reserves for the Group for the seventeen-month period ended 31st May, 2002 were as follows:

	Share premium	Exchange translation reserve	Retained Profits	Goodwill	Revaluation reserve	Other reserve	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Beginning of period	31,224	(17,615)	99,136	68,814	—	71	181,630
Premium arising from							
exercise of warrants	10	—	—	—	—	—	10
Expenses incurred in							
connection with share							
issuance	(7)	—	—	—	—	—	(7)
Utilisation of fixed assets fund	—	—	—	—	—	(1)	(1)
Exchange differences arising on							
translation of overseas							
subsidiaries' accounts	—	(804)	—	—	—	—	(804)
Surplus on revaluation of non-							
trading securities	—	—	—	—	32,314	—	32,314
Profit for the period	—	—	42,286	—	—	—	42,286
Interim dividend paid	—	—	(4,653)	—	—	—	(4,653)
End of period	31,227	(18,419)	136,769	68,814	32,314	70	250,775

At 31st May, 2002 and 2003, 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)

28. RESERVES (Cont'd)

Company

Movements 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	

Movements of reserves for the Company for the seventeen-month period ended 31st May, 2002 were as follows:

	Share premium \$'000	Retained profits/ (Accumulated losses) \$'000	Total \$'000
Beginning of period	31,224	3,405	34,629
Premium arising from exercise of warrants	10	—	10
Expenses incurred in connection with share issuance	(7)	—	(7)
Loss for the period	—	(13,574)	(13,574)
Interim dividend paid	—	(4,653)	(4,653)
End of period	31,227	(14,822)	16,405

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

29. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of net cash inflow from operating activities :

	Year ended 31st May, 2003 \$'000	17-month period ended 31st May, 2002 \$'000
Profit before taxation	61,181	45,221
Depreciation	10,308	14,304
Amortisation of negative goodwill	—	(144)
Amortisation of intangible assets	2,476	4,336
Loss/(Gain) on disposal of fixed assets	35	(91)
Gain on disposal of intangible assets	—	(2,696)
Loss on revaluation of fixed assets	43	125
Gain on disposal of unlisted non-trading securities	(15,500)	—
Loss on revaluation of listed non-trading securities	2	—
Redemption premium received on maturity of equity-linked notes	(1,060)	—
Interest income	(14,480)	(11,913)
Interest expense	12,573	21,374
Dividend income	—	(2,625)
Operating profit before working capital changes	55,578	67,891
Decrease in inventories	18,587	4,758
Decrease in due from ultimate holding company	—	1
Decrease/(Increase) in due from fellow subsidiaries	54,414	(69,064)
Increase in due from a related company	(461)	(200)
(Increase)/Decrease in accounts receivable	(121,646)	13,581
Decrease/(Increase) in deposits, prepayments and other receivables	53,231	(29,118)
(Decrease)/Increase in accounts payable, accruals and other payables	(23,454)	52,540
(Decrease)/Increase in bills payable	(14,933)	2,354
Increase in due to fellow subsidiaries	102	3,037
Increase/(Decrease) in due to Directors	50	(1,833)
Effect of foreign exchange rate changes	(11,269)	437
Net cash inflow generated from operations	10,199	44,384

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

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

	Year ended 31st May, 2003									17-month period ended 31st May, 2002
	Share capital (including share premium)	Other reserve	Dividend payable	Long-term bank borrowings	Short-term bank borrowings	Finance lease obligations	Notes and other long-term loans	Minority interests	Total	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Beginning of year/period	186,330	70	—	3,230	144,546	283	6,328	27	340,814	309,546
Net cash inflow from financing	—	(1)	(18,612)	34,255	(24,864)	(101)	12,373	—	3,050	23,168
Write-back of interest of notes payable	—	—	—	—	—	—	(653)	—	(653)	—
Arising from acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	3,978
Share of profit/(loss) by minority shareholders	—	—	—	—	—	—	—	1	1	(509)
Interim dividend declared	—	—	18,612	—	—	—	—	—	18,612	4,653
Exchange adjustments	—	—	—	5,633	12,135	6	2,106	—	19,880	(22)
End of year/period	186,330	69	—	43,118	131,817	188	20,154	28	381,704	340,814

(c) During the year, the Group disposed of its 12.5% equity interest in an unlisted company as mentioned in Note 17(b) for a consideration of \$35,000,000 which was recorded under deposits, prepayments and other receivables at 31st May, 2003.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(d) Acquisition of subsidiaries:

	Year ended 31st May, 2003 \$'000	17-month period ended 31st May, 2002 \$'000
Net assets acquired:		
Fixed assets	—	382
Intangible assets	—	47
Cash and bank balances	—	18
Inventories	—	10,208
Accounts receivable	—	3,686
Deposits, prepayment and other receivables	—	7,730
Bank loans and overdrafts	—	(13,398)
Accounts payable and accruals	—	(4,344)
Provision for taxation	—	(207)
Long-term bank loans	—	(3,442)
Minority interests	—	(536)
	—	144
Negative goodwill	—	(144)
	—	—
Satisfied by:		
Cash	—	—
Net cash outflow in respect of the acquisition of subsidiaries:		
	2003 \$'000	2002 \$'000
Cash and bank balances acquired	—	18
Bank loans and overdrafts with maturity within three months acquired	—	(13,398)
Net cash outflow in respect of the acquisition of subsidiaries	—	(13,380)

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(e) Analysis of cash and cash equivalents:

	2003	2002
	\$'000	\$'000
Promissory notes (<i>Note 22</i>)	72,518	25,806
Cash and bank balances	18,961	112,645
	91,479	138,451

30. 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 employee and thereafter contributions are voluntary. During the year, the Group's employer's contribution for pension scheme was approximately \$521,000 (2002: \$967,000). The assets of the fund were held separately from those of the Group and were managed by independent professional fund managers.

Forfeited contributions totalling \$355,000 (2002: \$254,000) were utilised during the year/period leaving \$166,000 (2002: \$713,000) available at the year-end/period-end to reduce future contributions.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

31. CONTINGENT LIABILITIES

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

	Group		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Discounted bills with recourse	14,821	11,660	—	—
Corporate guarantees provided to financial institutions in respect of facilities granted to Group companies (<i>Note 15</i>)	—	—	516,971	444,449
Corporate guarantees provided to other institutions in respect of facilities granted to Group companies (<i>Note 15</i>)	—	—	45,296	11,213

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

32. BANKING FACILITIES

At 31st May, 2003, the Group's banking facilities for overdrafts, loans and trade finance were secured by unconditional and continuing corporate guarantees provided by the Company and cross guarantees among its subsidiaries.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

33. COMMITMENTS

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

	2003		2002	
	Leasehold land and buildings \$'000	Furniture and equipment \$'000	Leasehold land and buildings \$'000	Furniture and equipment \$'000
Payable:				
- Not later than one year	4,033	1,256	4,051	678
- Later than one year and not later than five years	8,815	1,364	9,164	1,180
- Later than five years	5,328	—	5,903	—
	18,176	2,620	19,118	1,858

- (b) At 31st May, 2003, the Group had future aggregate minimum payments under license agreements as follows:

	2003 \$'000	2002 \$'000
Payable:		
- Not later than one year	28,828	28,399
- Later than one year and not later than five years	70,175	87,878
- Later than five years	203,161	213,290
	302,164	329,567

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

33. COMMITMENTS *(Cont'd)*

(c) Off-balance sheet financial instruments

During the year, the Group entered into forward exchange contracts in order to hedge firmly committed non-Hong Kong dollar commercial transactions. The contracts were arranged with commercial banks. In addition, the Group has also bought and sold some currency options. The Group had, at 31st May, 2003, outstanding forward foreign contracts to sell currency with a notional principal value of approximately EUR2,437,000 (2002: Nil) equivalent, and written currency options (principally Euro Dollar) with a notional principal value of EUR8,950,000 (2002: EUR2,000,000) equivalent. Such outstanding contracts were scheduled to settle or expire in January 2004.

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

34. 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)

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

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

	Year ended 31st May, 2003 \$'000	17-month period ended 31st May, 2002 \$'000
Sales of goods/services ⁽⁴⁾ ("Trading Transactions")		
Haru Japan Corporation, Inc. ⁽¹⁾	195	554
Eco-Haru (Far East) Limited ⁽¹⁾	1,289	1,350
Egana of Switzerland (Far East) Limited ⁽¹⁾	—	64
Goldpfeil AG ⁽¹⁾	—	13
Egana-Haru Mfr. Corp. Limited ⁽¹⁾	53	50
Goldpfeil Distribution and Services Limited ⁽¹⁾	—	22
Zeitmesstechnik GmbH ⁽¹⁾	4	38
Egana India Private Limited ⁽¹⁾	—	32
EganaGoldpfeil	1	—
Egana Suisse SA ⁽¹⁾	3,987	5,788
Egana Italia s.r.l. ⁽¹⁾	(532)	758
Goldpfeil Guam, Inc. ⁽¹⁾	26	102
Goldpfeil Company of Japan, Limited ⁽¹⁾	22	—
Goldpfeil Geneve SA ⁽¹⁾	153	—
Purchases of goods ⁽⁵⁾ ("Trading Transactions")		
Egana of Switzerland (Far East) Limited ⁽¹⁾	21	17
Egana of Switzerland (America) Corp. ⁽¹⁾	—	16
Eco-Haru (Far East) Limited ⁽¹⁾	—	19
Egana Deutschland GmbH ⁽¹⁾	54	14
Egana-Haru Mfr. Corp. Limited ⁽¹⁾	882	1,879
Bartelli Leather Products Limited ⁽¹⁾	27	—
Zeitmesstechnik GmbH ⁽¹⁾	1,846	2,224
Junghans Uhren GmbH ⁽¹⁾	9	—
Goldpfeil Distribution and Services Limited ⁽¹⁾	1	—
Egana Asial Company Limited ⁽¹⁾	1	—

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(a) (Cont'd)

	Year ended 31st May, 2003 \$'000	17-month period ended 31st May, 2002 \$'000
Rental income ⁽⁶⁾		
Kai-Yin Lo Limited ⁽¹⁾	102	241
Interest income		
Centreline Group Limited ⁽¹⁾	2,334	4,229
Allocation of operating costs ⁽⁷⁾		
Egana Deutschland GmbH ⁽¹⁾	68,101	93,515
Sub-tenancy agreement ⁽⁶⁾		
Egana Deutschland GmbH ⁽¹⁾	4,266	6,583
Consultancy fee expenses		
International Taxation Advisory Services Limited ⁽²⁾	1,072	1,593
Interest expense		
EganaGoldpfeil Europe (Holdings) GmbH ⁽¹⁾	50	—
Rossolini Limited ⁽³⁾	8	11
Rental expenses ⁽⁶⁾		
Eco-Haru Property Investments Limited ⁽¹⁾	38	54
Management fee expenses ⁽⁷⁾		
EganaGoldpfeil	7,621	7,716
Egana-Haru Mfr. Corp. Limited ⁽¹⁾	3,231	3,761
Royalty fee expenses ⁽⁷⁾		
P.C. International Marketing Limited ⁽¹⁾	8,325	11,286
Goldpfeil AG ⁽¹⁾	1,236	1,588
Egana Deutschland GmbH ⁽¹⁾	431	561
Bartelli Leather Products Limited ⁽¹⁾	6,742	9,852

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

Notes:

- (1) A subsidiary of EganaGoldpfeil which is not within the Group ("fellow subsidiary").
 - (2) A company in which Mr. David Wai Kwong WONG, Non-executive Director of EganaGoldpfeil and the Company, is a director.
 - (3) associated company of the Group.
 - (4) Sales to related parties were transacted at cost plus basis with a mark-up of approximately 11% to 100%.
 - (5) Purchase from related parties were determined on a cost plus basis with a mark-up of approximately 5% to 25%.
 - (6) Rental income/expenses received from/charged to related companies was based upon the terms specified in the rental agreements.
 - (7) 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 AG 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 a 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 34(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 expense 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 34(a)⁽⁷⁾ for details).
- (d) Except for an amount due to an associated company approximately \$91,000 (2002: \$89,000) (see Note 16) and a royalty deposit paid to a fellow subsidiary of approximately \$20,098,000 (2002: \$25,526,000) (see Note 20) which were interest-bearing at commercial rates, all other balances with related parties and Directors were unsecured, non-interest bearing and are repayable within one year.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

35. SUBSEQUENT EVENT

In June 2003, the Group acquired from a third-party company a 100% interest in a jewellery distribution business. The total consideration for this acquisition was approximately EUR8,500,000.

36. APPROVAL OF THE ACCOUNTS

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