ANNUAL REPORT 2006/2007

EganaGoldpfeil

(HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 48


SALAMANDER
Sioux
DAS MOKASSIN GEFÜHL
GOLD PFEIL
GERMANY
1856
COMTESSE
JOOP!
ESPRIT
PUMA
TIME
CERRUTI 1881
pierre cardin
CARRERA
NATIONAL
GEOGRAPHIC
ERHARD JUNGHANS
SEIT 1861
DUGENA
JUNGHANS
Ludwigsburg
ABEL & ZIMMERMANN
since 1885
KAZTO

In Remembrance of
Mr. Hans-Joerg Seeberger
(1943-2007)

Though nothing can bring back the hour
of splendour in the grass, of glory in the flower;
We will grieve not, rather find strength in what remains behind
- William Wordsworth

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LETTER FROM THE BOARD

Dear Shareholders,

On behalf of the board of directors (the "Board"), I present to you the annual report of EganaGoldpfeil (Holdings) Limited (the "Company", together with its subsidiaries, the "Group") for the year ended 31st May, 2007. This year has been an exceptionally difficult period for the Group with operating loss of approximately HK$1.6 billion. However, the Board has taken various remedial measures to improve the situation as detailed below.

Results for the year

Turnover increased from approximately HK$6.0 billion to approximately HK$7.0 billion, but this figure includes sales in the Group's trading operations of approximately HK$1.8 billion to customers in respect of which there are doubtful receivables of approximately HK$548.6 million. Overall, losses attributable to the equity holders of the Company were incurred of approximately HK$2.0 billion. Because of these losses, equity attributable to the shareholders has been reduced from approximately HK$1.9 billion as at 31st May, 2006 to approximately HK$321.3 million as at 31st May, 2007, included in which figure are intangible assets of approximately HK$651.5 million.

The Company's auditors, Baker Tilly Hong Kong Limited, were unable to obtain reasonable representations and assurances from the Company to satisfy themselves as to approximately HK$1.8 billion sales to customers in the Group's trading operations as original sales and as to the related gross profit of approximately HK$448.0 million. Due to this scope limitation and fundamental uncertainty relating to the going concern basis, the auditors have qualified their audit report and have not expressed an opinion as to whether or not the financial statements of the Company and of the Group for the year give a true and fair view.

Financial review

As previously announced, the Board has appointed KPMG, an independent professional firm of accountants, to conduct an independent review of the Company's financial position based on an agreed scope of work which includes a review of the Group's receivables and cash equivalents. KPMG completed its review on 16th October, 2007 and expressed serious reservations on the recoverability of certain receivables, promissory notes and cash equivalents totaling approximately HK$2.6 billion, comprising approximately HK$1.6 billion as at 31st May, 2007 and approximately HK$1.0 billion arising subsequent to that date. KPMG also expressed reservations as to the existence and valuation of a trademark with a book value of HK$70.0 million.

As a result of the KPMG review, the Board considers it prudent to make full provisions for the doubtful receivables and promissory notes, with approximately HK$1.6 billion having charged to the profit and loss account during current financial year ended 31st May, 2007 and approximately HK$1.0 billion to be charged in the following financial period beginning 1st June, 2007. Consequently, losses can be expected to be announced in due course for the six months ending 30th November, 2007. The Board has also resolved to write off trademarks in the amount of approximately HK$81.5 million. In addition, the Group took into account an impairment loss on goodwill of approximately HK$130.3 million.

In response to a shortening of product life cycle, the Board is tightening its inventory provision policy. An additional inventory provision of approximately HK$225.4 million has been made for the financial year ended 31st May, 2007. A provision of approximately HK$206.4 million has also been made against available-for-sale financial assets of the Group during the year.

Prospects

The present board members are committed to do their utmost to remedy the Group's difficulties. From their own knowledge of the Group's operations, supported to a degree by KPMG's findings, they believe the financial problems which have arisen are limited to a largely self-contained area of the Group's trading operations, which generated sales of approximately HK$1.8 billion for the financial year ended 31st May, 2007 as referred to above. These trading activities have been discontinued. The Board believes that the majority of the Group's business relating to the remaining approximately HK$5.2 billion of turnover for the financial year ended 31st May, 2007 is sound. Moreover, the Board is committed to continuously review the Group's existing businesses with a view to strengthen and streamline the Group's business and operation which, in turn, enhance shareholders' value. The Group has commenced the disposal of non-core available-for-sale securities and investments so that it can focus its resources on its core business and improve its liquidity position. All the shares of Tonic Industries Holdings Limited held by the Group were disposed of in September 2007 for gross proceeds of approximately HK$32.8 million. The Group will continue to dispose of the remaining non-core available-for-sale securities.

The Group experienced financial difficulties after the year end of 31st May, 2007. Certain bank creditors served writs of summons on the Company and/or its subsidiaries to repay the outstanding loans. Moreover, in September, 2007, the Group's credit insurers and factoring banks withdrew the credit insurance and debt factoring facilities. As set out in the Company's announcement dated 2nd October, 2007, the Group obtained a secured bridging loan of HK$300 million from Lifestyle International Holdings Limited ("Lifestyle") for a term of four months from the date of drawdown on 24th September, 2007. The Company also received a non-binding term sheet from Lifestyle regarding, among other things, (a) the subscription by Lifestyle of HK$880 million convertible bonds to be issued by the Company; (b) the proposed acquisition by Lifestyle of approximately 29.67% of the shares in the Company at an indicative price of HK$0.75 per share, with the proceeds of approximately

LETTER FROM THE BOARD

HK$325 million being paid by Joint Asset International Limited for certain of the doubtful receivables of the Group (on terms to be agreed); and (c) a restructuring of the Group's financial indebtedness on terms acceptable to the Group's financial creditors (the "Lifestyle Proposal"). After the HK$300 million bridging loan was received from Lifestyle, the Group's main factoring bank restored the Group's factoring facilities, greatly enhancing the Group's day-to-day operations in Europe. In addition, the bank creditors have withdrawn the proceedings.

With the receipt of the HK$300 million bridging loan from Lifestyle and the restoration of its factoring facilities, the Group has been able to carry on its business . With the benefit of this financing, the Board expects the Group to be able to maintain its business level and daily operations until at least the beginning of 2008, provided its financial creditors continue to exercise the forbearance they have shown to-date. This should allow sufficient time for a definitive agreement to be reached with Lifestyle provided, among other things, Lifestyle's due diligence exercise on the Group proves satisfactory. The Group has recorded stable sales for the period from June to September 2007. There has been no substantial cancellation of sales orders during this period.

The Group is working hard to facilitate the implementation of the Lifestyle Proposal in ongoing discussions with Lifestyle and the Group's financial creditors. The Board believes that the Lifestyle Proposal, if implemented, will lay a solid financial foundation for the current business and future development of the Group. Furthermore, the Group can benefit from Lifestyle's business network in mainland China to expand our presence and business there. Further announcements regarding the Lifestyle Proposal will be made as and when appropriate.

The Chairman and founder of the Company, Mr. Hans-Joerg Seeberger, passed away on 19th October, 2007. On behalf of all the directors and staff, I would like to convey our sincere condolences to the family of Mr. Seeberger and to record our appreciation for the contribution made by Mr. Seeberger to the Company which he has established over many years.

On behalf of the Board, I would like to express our gratitude to our management and staff for their hard work and devoted efforts especially through the last few difficult months. We would like to assure them, our financial institutions, bankers and stakeholders that the Board is making every effort, in conjunction with Lifestyle, to achieve an acceptable resolution to the Group's present situation and believes that such an outcome can be achieved by early 2008.

Yours faithfully,

Peter Ka Yue LEE
Deputy Chairman

CORPORATE INFORMATION

DIRECTORS

Executive Directors
Peter Ka Yue LEE (Deputy Chairman)
Michael Richard POIX (Chief Executive Officer)
Ho Yin CHIK
Wolfgang Heinz PFEIFER
Juergen Ludwig HOLZSCHUH

Independent Non-Executive Directors
Professor Udo GLITTENBERG
Dr. Goetz Reiner WESTERMEYER

AUDIT COMMITTEE
Professor Udo GLITTENBERG
Dr. Goetz Reiner WESTERMEYER

REMUNERATION COMMITTEE
Professor Udo GLITTENBERG
Dr. Goetz Reiner WESTERMEYER

GROUP GENERAL COUNSEL
Georg DELHAES
Takao SAKAMOTO

AUDITORS
Baker Tilly Hong Kong Limited

REGISTERED OFFICE
P.O. Box 1787, 2nd Floor, One Capital Place,
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British West Indies

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Tel. : (49) 69 8050 0
Fax : (49) 69 8050 1600
E-Mail : info@egana.de

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Tricor Secretaries Limited
26/F., Tesbury Centre, 28 Queen's Road East,
Wanchai, Hong Kong

LISTING
The Stock Exchange of Hong Kong Limited
Stock Code : 48

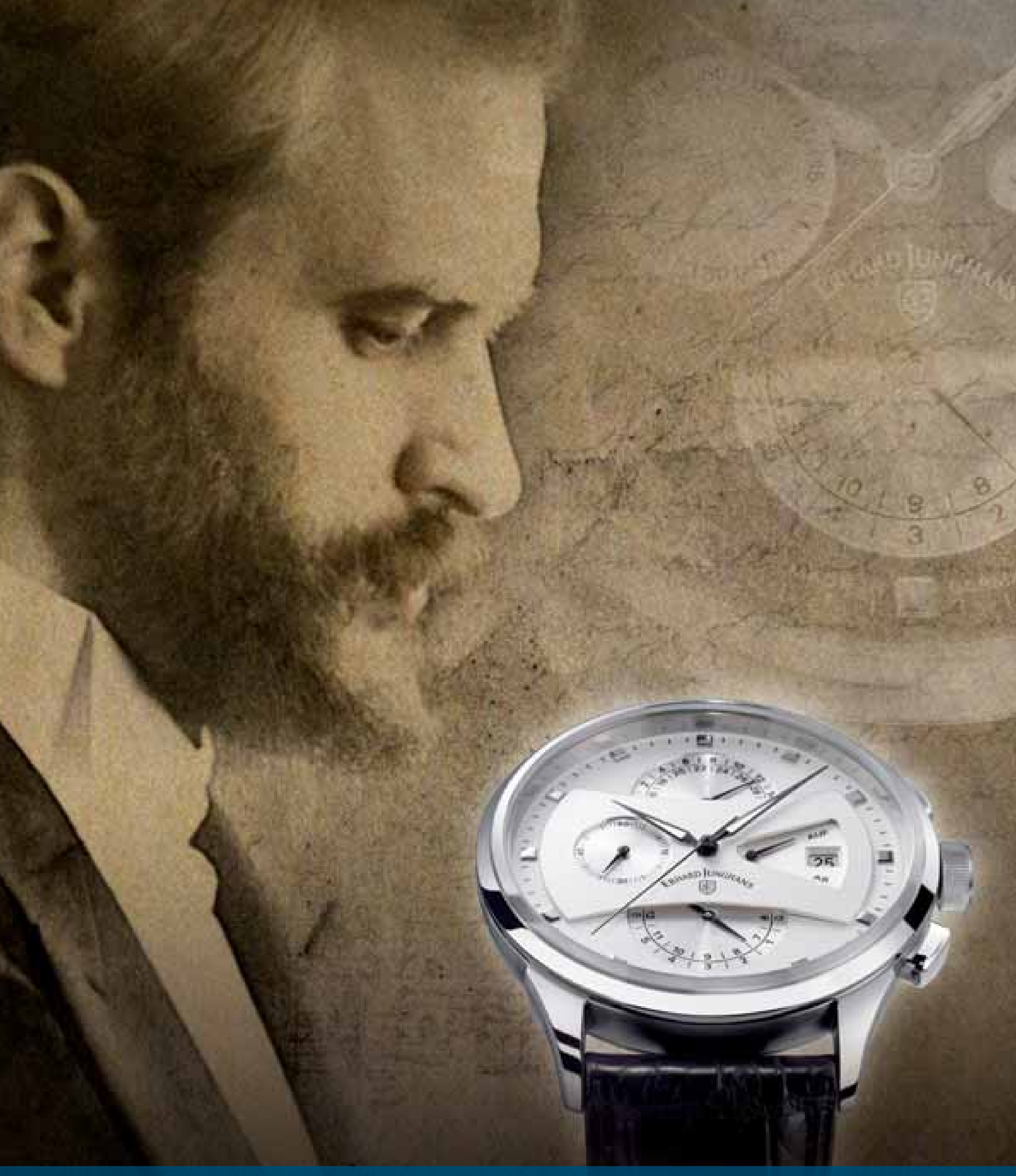
WEBSITE
http://www.egana.com


JOOP!
CERRUTI 1881
JOOP!
PUMA

EVENTS

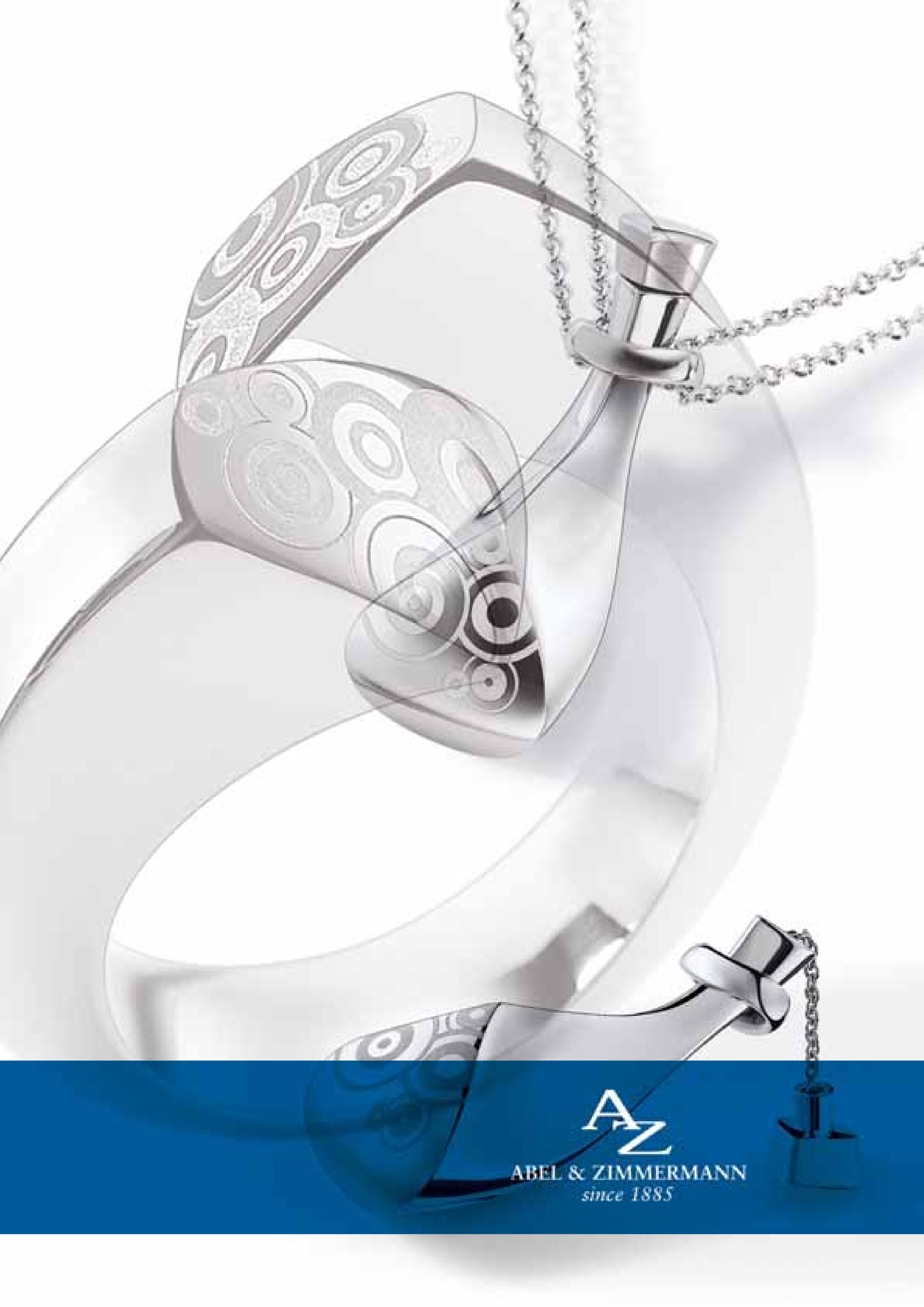
LUXURY

RESPECT TOWARDS TRADITION, AN UNDERSTANDING OF THE NATURE OF DESIRE, AND A DETERMINATION TO PRESERVE THE CORE VALUES OF A LUXURY LABEL WHILE KEEPING IT CONTEMPORARY AND SOMETIMES EVEN VISIONARY. LUXURY IS TIMELESS AND IN MORE SENSES THAN THE MOST OBVIOUS ONE… PRECIOUS.



Erhard Junghans

SEIT 1861


ABEL & ZIMMERMANN
since 1885


COMTESSE


GOLD PFEIL
GERMANY
1856

A DISTINCTIVE DESIRE FOR BEAUTY AND EXCLUSIVITY IS NOT RESERVED FOR THE LUXURY SEGMENT AND A SELECTED FEW ANYMORE. OUR LIFESTYLE BRANDS DELIVER ALL OF THESE VALUES WHILE BEING AFFORDABLE AND INCLUSIVE, ACCOMMODATING AFFLUENT CUSTOMERS AS WELL AS YOUNGER ONES WITH FUTURE POTENTIAL. IT IS SAID THAT LUXURY IS AN ACQUIRED TASTE-WITH OUR WELL-BALANCED PORTFOLIO OF LIFESTYLE PRODUCTS, WE ASPIRE TO TURN THE LEARNING CURVE INTO ... PLEASURE.

LIFESTYLE


SALAMANDER


Brandsohlenbreite
Sioux
DAS MOKASSIN GEFÜHL
Brandsohlenlänge


JUNGHANS
GERMANY. SINCE 1861
JUNGHANS
CHRONOSCOPE
MADE IN GERMANY
JUNGHANS
JUNGHANS GERMANY


DUGENA
DUGENA
RADIOCONTROLLED


JOOP!
pierre cardin

CERRUTI 1881

CERRUTI 1881
Ornaments

FASHION

OUR BRANDS IN THIS CATEGORY ARE CAPITALIZING ON THE TWO MEGA-TRENDS OF OUR TIME: YOUNG FASHION AND THE MERGER OF SPORTS AND LIFESTYLE. CONSTANT IMPROVEMENT AND A SHARPENED SENSE FOR TOMORROW'S NEW NEW THINGS NEVER GO OUT OF, WELL, ... FASHION.


ESPRIT


PM
12:38 56
PUMA®
TIME

CORPORATE GOVERNANCE REPORT

The Board presents the Corporate Governance Report for the year ended 31st May, 2007.

COMPLIANCE WITH APPENDIX 14 OF THE LISTING RULES

The Group adopted its own Code on Corporate Governance ("the EganaGoldpfeil Code") in July 2005 and regularly updated it to enhance the corporate governance practices. The principles and practices in the EganaGoldpfeil Code basically incorporated the principles and provisions set out in the Code on Corporate Governance Practices ("the Stock Exchange Code") issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Group issued the first Corporate Governance Report in the Annual Report for the year ended 31st May, 2005.

The Board considered that the provisions set out in the Stock Exchange Code had also been complied with (with the exceptions as described below) throughout the year ended 31st May, 2007 and up to the date of the publication of the annual report.

THE BOARD

Board Composition

After the passing away of Mr. Hans-Joerg SEEBERGER ("Mr. Seeberger") on 19th October, 2007, the Board comprises seven members including Messrs. Peter Ka Yue LEE ("Mr. Lee"), Michael Richard POIX ("Mr. Poix"), Ho Yin CHIK ("Mr. Chik"), Wolfgang Heinz PFEIFER ("Mr. Pfeifer") and Juergen Ludwig HOLZSCHUH ("Mr. Holzschuh") (appointed on 13th August, 2007) as Executive Directors and Dr. Goetz Reiner WESTERMEYER ("Dr. Westermeyer") and Professor Udo GLITTENBERG ("Prof. Glittenberg") as Independent Non-Executive Directors. Details of their respective experience and qualification are included in the Biographical Details of Directors and Senior Management Section of this Annual Report.

The Board is responsible for overseeing the Group's strategic planning and development, and determining the objectives, strategies and policies of the Group. Each Executive Director is assigned with specific responsibilities to enhance the effectiveness of the Group:-

Mr. Seeberger was the Executive Chairman of the Company and was responsible for the Group's overall corporate objectives, policies and development strategy as well as managing Board's affairs and ensuring that the Board discharges its functions effectively. Following the segregation of the roles of chairman and chief executive in November 2006, Mr. Seeberger's duties as Chairman had been delegated in part to Mr. Lee as Deputy Chairman while his chief executive officer duties had been delegated to Mr. Poix as Chief Executive Officer. Since April 2007, Mr. Seeberger had been on sick leave and during this period, the rest of Mr. Seeberger's duties were delegated to other executive directors. Mr. Lee will continue to assist in the management of Board's affairs.

Mr. Lee, Deputy Chairman, is responsible for the operational and general management of the Group's Hong Kong and China operations and assists in managing Board's affairs. With a view to complying Code Provision E.1.2 that requires the Chairman of the Board to attend the annual general meeting of the Company, Mr. Lee was designated by the Chairman to chair and attend the meeting on 17th November, 2006.

Mr. Poix, Chief Executive Officer, is responsible for the Group's operations worldwide particularly in brand management, marketing and license management.

Mr. Chik, Group Treasurer, is responsible for financial and treasury affairs of the Group.

Mr. Pfeifer, Head of Luxury, is responsible for overseeing the Group's activities in Europe, particularly in the brand management of own German brands.

Mr. Holzschuh, also Finance Director of EganaGoldpfeil Europe (Holdings) GmbH, is responsible for overseeing the finance and management of the Group's subsidiaries in Europe.

Throughout the year ended 31st May, 2007, the Company has complied with the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") requirements for a minimum of three independent non-executive directors with one of them having the appropriate accounting qualification or related financial management expertise as required by the Stock Exchange. The Company has received written annual confirmation from each Independent Non-Executive Director of his independence pursuant to the Listing Rules to which the Company considers all of them to be independent according to the independence guidelines in the Listing Rules. The Independent Non-Executive Directors are identified as such in all corporate communication and, in line with the recommended best practices of the Stock Exchange Code, represent one-third of the Board.

There is no family relationship between any of the Directors, nor is there any financial, business or other material or relevant relationships among the members of the Board.

In line with the recommended best practice of the Stock Exchange Code, the Company has arranged an insurance cover for all Directors in respect of any legal action against the Directors.

On 31st July, 2007, Mr. Andy Yick Man NG ("Mr. Ng") resigned as Independent Non-Executive Director of the Company due to too much workload. Following Mr. Ng's resignation, the composition of independent non-executive directors falls below the minimum number and the qualification requirement set out in Rule 3.10(1) and (2) of the Listing Rules. The Company published an announcement dated 1st August, 2007 containing the relevant details and reasons in compliance with Rule 3.11 of the Listing Rules. The Board shall appoint a sufficient number of independent non-executive directors with at least one of them having the appropriate professional qualifications or accounting or related financial management expertise as soon as possible to meet the Listing Rules requirements.

Board Meetings

The Board met regularly throughout the year to discuss the business development, operational and financial performance of the Group though certain regular meetings were held with shorter than 14 days' notice as stipulated under Code Provision A.1.3 which requires that notice of at least 14 days should be given of a regular board meeting.

The attendance of individual Board members at the Board Meetings (either in person or by phone) held during the year are set out in the following table:

Attendance of Board Members

Name of Directors	Total number of Board Meetings Held	Number of Board Meetings attended by individual Director
	15	
Executive Directors		
Hans-Joerg SEEBERGER, Executive Chairman passed away on 19th October, 2007		5
Peter Ka Yue LEE, Deputy Chairman		15
Michael Richard POIX, Chief Executive Officer		12
Ho Yin CHIK		14
David Wai Kwong WONG, resigned on 13th August, 2007		15
Wolfgang Heinz PFEIFER, appointed on 17th November, 2006		4
Juergen Ludwig HOLZSCHUH, appointed on 13th August, 2007		N/A
Independent Non-Executive Directors		
Professor Udo GLITTENBERG		8
Dr. Goetz Reiner WESTERMEYER		8
Andy Yick Man NG, resigned on 31st July, 2007		8

Other Board Meetings with the attendance of senior management were held regularly during the year to discuss the day-to-day management and administration as well as the recent business development of the Group.

All minutes of the Board Meetings are kept by the Company Secretarial Department and are open for inspection by Directors upon reasonable notice.

Chairman and Chief Executive Officer

To enhance corporate governance practice, the Board resolved to segregate the roles of Chairman and Chief Executive Officer in November 2006. Until his passing away on 19th October, 2007, Mr. Seeberger had remained as the Executive Chairman of the Group. Mr. Poix was re-designated as Chief Executive Officer, and takes lead in the daily operations of the Group worldwide since November 2006. The separation of the roles of Chairman and Chief Executive Officer enables the Company to fully comply with Code Provision A.2.1 of the Stock Exchange Code.

Nomination, Appointment, Re-election and Removal of Directors

In July 2006, the Board adopted a Director's Nomination Procedures setting out (i) the criteria in evaluating and selecting candidates for directorship, (ii) the nomination procedures by the Board or shareholders of the Company and (iii) the re-election of Directors at general meetings. It has been the Board's practice to review its structure, size and composition from time to time and when a casual vacancy arises. In selecting and recommending candidates for directorship, the Board will consider, inter alia, the candidate's character and integrity, business experience, needs of the Board for particular expertise and skills at the time.

All directors appointed either to fill a casual vacancy or as an additional board member shall be subject to election at the first general meeting after their appointment. Every Director (excluding the Chairman), including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. The Board considered that it was not in the interest of the Company to subject the Executive Chairman, being the founder of the Group and having extensive experience in the Group's business, to retirement by rotation according to Code Provision A.4.2 of the Stock Exchange.

All Independent Non-Executive Directors of the Company do not have a specific term of appointment as provided in Code Provision A.4.1 of the Stock Exchange Code, but they are subject to retirement by rotation at general meetings of the Company.

In view of an amendment to the Listing Rules which came into effect on 1st March, 2006, the Company's articles of association was amended by a special resolution passed at the last annual general meeting of the Company to provide that a director may be removed by an ordinary resolution instead of a special resolution.

SECURITIES TRANSACTIONS BY DIRECTORS AND EMPLOYEES

The Group has adopted and regularly updated its "Code for Securities Transactions by Directors" ("Code of Conduct") and "Code for Securities Transactions by Employees" to govern the Directors' and certain employees' (who are likely to be in possession of unpublished price-sensitive information of the Group) securities transactions on terms no less exacting than those set out in the Model Code (Appendix 10 of the Listing Rules).

The Company has received confirmations from all Directors that they have complied with the Model Code and the Code of Conduct throughout the year. Compliance confirmation was received from the concerned employee as well.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

A Remuneration Committee comprising all of the three Independent Non-Executive Directors (Prof. Glittenberg, Dr. Westermeyer and former Independent Non-Executive Director, Mr. Ng) and Mr. David Wai Kwong WONG ("Mr. Wong"), former Executive Director, was established in January 2005. The main role of the Remuneration Committee is to determine and agree with the Board the framework or broad policy for the remuneration of the Chairman, Executive Directors and Independent Non-Executive Directors of the Company including its subsidiaries and such other members of the executive management reporting to the Board. Written terms of reference for the Remuneration Committee setting out the role, authority and function of the Remuneration Committee have been adopted by the Group.

A Remuneration Committee Meeting with the attendance (either in person or by phone) of all the committee members (Prof. Glittenberg, Dr. Westermeyer, Mr. Ng and Mr. Wong) was held during the year to review the existing remuneration packages for Directors, senior management and employees of the Group to ensure that they are in line with the Group's remuneration policy. In February 2007, the Remuneration Committee recommended, and the Board adopted, a fresh Remuneration Policy Framework for the senior executives of the Group. The Framework sets out a base for ensuring that senior executives' remuneration are determined on a fair and equitable basis and that individuals' targets are aligned with the Group's corporate goals by promoting a performance-based bonus program.

In addition, the Group introduced a performance-based bonus system for its staff in the China operations according to their term of service to the Group with a view to retaining experienced staff and thereby enhancing the operating efficiency.

Attendance of the Remuneration Committee Members

Name of Members	Total number of Meetings Held	Number of Meetings attended by individual member
	1	
Independent Non-Executive Directors		
Andy Yick Man NG (Chairman), resigned on 31st July, 2007		1
Professor Udo GLITTENBERG		1
Dr. Goetz Reiner WESTERMEYER		1
Executive Director		
David Wai Kwong WONG, resigned on 13th August, 2007		1

The main principles of the Group's remuneration policies are:

(a) No individual should determine his or her own remuneration;

(b) Remuneration should be broadly aligned with companies with whom the Group competes for human resources;

(c) Remuneration should reflect performance, job complexity and responsibility so as to attract, motivate and retain high performing individuals and to enhance the return of investment to shareholders; and

(d) In line with the prevailing market conditions and the Group's performance and profitability.

No Executive Director has entered into a service contract with the Company or any of its subsidiaries with a notice period in excess of one year or with provisions for predetermined compensation for termination which exceeds one year's salary and benefits-in-kinds. None of the Executive Directors has entered into a fixed contract with duration of more than 3 years. The above policies also apply to the senior management.

Independent Non-Executive Directors are paid fees in line with market practice, as determined having regard to the recommendation of the "Higgs Report" in the United Kingdom on the Review of the Role and Effectiveness of Non-Executive Directors in its calculation of the fees of Non-Executive Directors. In summary, reference was made to the workload, scale and complexity of business, responsibility and the attendance rate of the meetings of the Independent Non-Executive Directors.

AUDIT COMMITTEE

Throughout the year ended 31st May, 2007, the Audit Committee, established in December 1998, comprised all of the three Independent Non-Executive Directors (Prof. Glittenberg, Dr. Westermeyer and former Independent Non-Executive Director, Mr. Ng). Amongst the Audit Committee Members, at least one member has the appropriate professional qualification and experience in financial matters as required by Rule 3.21 of the Listing Rules. Written terms of reference including the role, authority and function of the Audit Committee, have been adopted and regularly updated by the Company.

Three Audit Committee Meetings with the attendance (either in person or by phone) of all the committee members were held during the year (i) to review the interim and annual financial statements and the relevant significant financial reporting judgments; (ii) to review the remuneration of external Auditors, evaluate the independence and objectivity of external Auditors and to determine the nature and scope of the Audit; (iii) to review the financial and accounting policies and practices, the internal control, financial control and risk management system of the Group, and (iv) to review the updated Internal Control Assessment Guidelines and related Checklist.

Attendance of the Audit Committee Members

Name of Members	Total number of Meetings Held	Number of Meetings attended by individual member
	3	
Independent Non-Executive Directors		
Andy Yick Man NG (Chairman), resigned on 31st July, 2007		3
Professor Udo GLITTENBERG		3
Dr. Goetz Reiner WESTERMEYER		3

The Audit Committee has not taken a different view from the Board regarding the selection, appointment, resignation or dismissal of the external Auditors.

Following the resignation of Mr. Ng on 31st July, 2007, the Company fails to meet the requirements of Rule 3.21 and has published an announcement containing the relevant details and reasons on 1st August, 2007 in compliance with Rule 3.23 of the Listing Rules. The Board shall appoint appropriate member(s) to the Audit Committee as soon as possible to meet the Listing Rules requirements.

AUDITORS' REMUNERATION

During the year, an analysis of the remuneration paid to the Company's Auditors, Baker Tilly Hong Kong Limited, is as under:

	HK$
Audit services	1,900,000
Non-audit services	604,920
Total	2,504,920

INTERNAL CONTROL AND RISK MANAGEMENT

An Internal Control System Assessment Guidelines and an Internal Control Checklist have been adopted by the Group for each of the major operating units of the Group since 2005. An updated set of Guidelines and Checklist were approved by the Audit Committee in February 2007.

It has become apparent from a review of the Group's receivables carried out with the assistance of KPMG as independent accountants, which review has resulted in the significant reported provisions for asset impairment, that a number of high value transactions have occurred without reference to or approval by the Company's Board. The fact that such transactions can have occurred without the Board reviewing them and assessing the risks involved has revealed significant weaknesses and failings in the Company's internal control and risk management system. The Directors are reviewing, assessing and monitoring the effectiveness of the Group internal control systems with a view to ensuring that such weaknesses are removed. The Directors will continue regularly to review, assess and improve where necessary the Group internal control system in the areas of finance, operation and Listing Rules compliance and its effectiveness.

FINANCIAL REPORTING

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31st May, 2007.

The statement of the external Auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 45 to 46.

GOING CONCERN

As at 31st May, 2007, the consolidated net current liabilities were approximately HK$17,703,000. On 23rd September, 2007, the Company entered into an arrangement with a wholly owned subsidiary of Lifestyle International Holdings Limited ("Lifestyle") for a bridging loan of HK$300 million, which has been drawn down in full on 24th September, 2007. The bridging loan has a term of four months and is secured by a charge over all equity interests in P.C. International Marketing Limited ("PCIM"), a wholly owned subsidiary holding and operating the brand "Pierre Cardin" for timepiece and jewellery products and a debenture over the assets of PCIM, a charge over the Group's owned office premises in Hong Kong, charges over the bank accounts in which the loan funds are held and a charge over 434,345,736 shares in the Company (the "Joint Asset Shares") held by Joint Asset International Limited ("Joint Asset"). Joint Asset is an indirect wholly owned investment holding company of The Captive Insurance Trust, a discretionary trust whose prospective beneficiaries include Mr. Seeberger and his family. As at the date of this report, the Joint Asset Shares represent approximately 29.67% of the total issued share capital of the Company.

On 21st September, 2007, Lifestyle has submitted a non-binding term sheet setting out the terms to invest in the Company. Such terms include the proposed subscription of HK$880 million convertible bonds to be issued by the Company, the proposed acquisition of the Joint Asset Shares at an indicative price of HK$0.75 per share with the proceeds of approximately HK$325 million to be paid by Joint Asset for a portfolio of accounts receivable of the Group and a restructuring of the Group's financial indebtedness on terms acceptable to the Group's financial creditors. The proposed restructuring and sale of the Joint Asset Shares are subject to satisfactory financial, legal and operational due diligence and any necessary shareholders' approval. Joint Asset has agreed to grant exclusivity to Lifestyle until 31 January 2008 in relation to the acquisition of the Joint Asset Shares.

A number of the Group's major financial creditors have expressed their support for the proposed restructuring subject to agreement of detailed terms. The Group has requested all of its financial creditors to exercise forbearance pending the implementation of a financial restructuring. On the basis that the proposed financial restructuring is implemented and that ongoing financial support can be obtained from existing or potential financial creditors, the Board considers that the Group will have sufficient working capital to finance its operations in the foreseeable future and to assure the Group's continuance as a going concern.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year ended 31st May, 2007, the Group focused on the design, assembly, manufacturing and distribution of luxury and fashion products which are broadly divided into three principal categories, namely, timepieces, jewellery, and leather and lifestyle products.

Revenue of the Group for the year ended 31st May, 2007 was approximately HK$7.0 billion (2006: approximately HK$6.0 billion), of which approximately HK$2.5 billion (2006: approximately HK$2.1 billion) was attributable to timepieces, approximately HK$1.3 billion (2006: approximately HK$1.1 billion) to jewellery and approximately HK$3.2 billion (2006: approximately HK$2.8 billion) to leather and lifestyle products. The growth of business was primarily due to an increase in the sales of our licenced brand Cerruti 1881 timepieces and a positive growth in the sales of timepieces from our own brands including Pierre Cardin. The sales of Cerruti 1881 jewellery products also demonstrated a strong growth. For leather and lifestyle products, the growth in the sales of JOOP! branded goods, had contributed to the sales growth of this segment for the year ended 31st May, 2007. Furthermore, the sales in trading business have shown an extraordinary growth by approximately 35%.

FINANCIAL REVIEW

Sales
Revenue totalling approximately HK$7.0 billion was recorded for the year ended 31st May, 2007, an increase of approximately 18% compared to approximately HK$6.0 billion recorded for the year ended 31st May, 2006. The growth was primarily due to the factors set out in the paragraph headed "Business Review" above.

By business segment, sales increased by approximately 21% for timepiece products, approximately 17% for jewellery products, and approximately 15% for leather and lifestyle products compared to the previous financial year.

Geographically, revenue from Western Europe represented approximately 57% of the Group's total, with Eastern Europe approximately 8%, Asia Pacific approximately 29%, and USA approximately 6% (as compared to 64%, 7%, 25% and 4% respectively for the year ended 31st May, 2006).

Sales of approximately HK$7.0 billion for the year ended 31st May, 2007 included sales in the Group's trading operations of approximately HK$1.8 billion to customers in respect of which the Company's auditors, Baker Tilly Hong Kong Limited, were unable to obtain reasonable representations and assurances to satisfy themselves as to original sales (the "Trading Operations"). The sales in respect of the Trading Operations were approximately HK$1.3 billion for the year ended 31st May, 2006.

Cost of Sales and Gross Profit
Cost of sales increased by approximately 22% from approximately HK$3.6 billion for the year ended 31st May, 2006 to approximately HK$4.5 billion for the year ended 31st May, 2007 mainly as a result of an increase in sales volume and general cost increases. In addition, in view of the shortening of product life cycle, the Group is tightening its inventory provision policy and additional inventory provisions of approximately HK$225.4 million were charged to cost of sales during the year ended 31st May, 2007.

FINANCIAL REVIEW *(continued)*

Cost of Sales and Gross Profit *(continued)*
The Group's gross profit increased by approximately 10% from approximately HK$2.3 billion for the year ended 31st May, 2006 to approximately HK$2.6 billion for the year ended 31st May, 2007. Gross profit margin dropped slightly to approximately 37% (compared to approximately 39% for the year ended 31st May, 2006), primarily due to the additional inventory provision made during the financial year. The gross profit of approximately HK$448.0 million was derived from the aforesaid HK$1.8 billion sales revenue in respect of the Trading Operations, which the Company's auditors were unable to obtain reasonable representations and assurances from the Company to satisfy themselves as to the original sales and the related costs thereof. The gross profit in respect of the Trading Operations was approximately HK$405.0 million for the year ended 31st May, 2006.

Expenses
Following the Company's announcements on 7th August, 2007 and 31st August, 2007, the Board referred to KPMG's independent financial review findings and found that it was prudent to make full provisions for the doubtful accounts and other receivables and promissory notes as at balance sheet date. Approximately HK$1.6 billion had been charged to the profit and loss account during current financial year ended 31st May, 2007 and approximately HK$1.0 billion would be charged in the next financial period beginning 1st June, 2007.

Distribution costs increased by 18% from approximately HK$1.3 billion for the year ended 31st May, 2006 to approximately HK$1.5 billion for the year ended 31st May, 2007. Such increases were mainly contributed by an increase in sales turnover and associated costs such as freight and warranty costs. Other expenses including rent and rates, advertising and promotion had also increased. Administrative expenses increased by approximately 21% from approximately HK$651 million for the year ended 31st May, 2006 to approximately HK$786 million for the year ended 31st May, 2007. Such increases were mainly attributable to an increase staff related and general overhead costs such as insurance and depreciation, an one-off compensation loss resulting from the termination of a business partnership agreement.

For the year ended 31st May, 2007, impairment provisions on assets totalling approximately HK$2.0 billion were recorded as a result of various provisions made principally as a result of findings from KPMG's review and current year's audit. Impairment provisions were recognised on the Group's accounts receivable, other receivables and promissory notes totalling approximately HK$1.6 billion. In addition, the Group reassessed the value of its intangible assets including trademarks and decided to write off approximately HK$215 million of intangible assets. Further, the Group has written off certain available-for-sale financial assets in the amount of approximately HK$206 million, including provisions made on the Group' strategic investments of approximately HK$89.4 million. The strategic investments consist of a private company, which was set up with a view to enhancing the Group's distribution network in Asia, and a private closed-end fund. Both investments were fully written down during the year ended 31st May, 2007. In addition, an impairment provision in the amount of approximately HK$117.0 million was made against the Group's unlisted investments with a view to focusing on Group's core business.

As a consequence, the Group incurred an operating loss of approximately HK$1.6 billion for the year ended 31st May, 2007, compared to an operating profit of approximately HK$0.5 billion for the year ended 31st May, 2006.

Finance Costs
Finance costs increased by approximately 125% from approximately HK$137.3 million for the year ended 31st May, 2006 to approximately HK$308.5 million for the year ended 31st May, 2007 primarily due to a general increase in interest charges on bank borrowings and a loss incurred in the amount of approximately HK$121.0 million resulting from the revaluation of the Group's financial instruments used for hedging purposes.

FINANCIAL REVIEW *(continued)*

Turnover days

The inventory turnover was approximately 112 days, as compared to approximately 124 days for the year ended 31st May, 2006. The inventory turnover, calculated on a basis by excluding the cost of sales in respect of the Trading Operations, was approximately 162 days for the year ended 31st May, 2007 as compared to approximately 167 days in the previous year. As at 31st May, 2007, inventories were in the approximate amount of HK$1.4 billion (2006: approximately HK$1.3 billion). The increase of approximately 8% was mainly as a result of an appreciation of Euro as at 31st May, 2007.

The average debtor turnover has shortened from approximately 60 days for the year ended 31st May, 2006 to approximately 57 days for the year ended 31st May, 2007. The average debtor turnover, calculated on a basis by excluding the sales and trade debtors arising from the Trading Operations, was approximately 34 days for the year ended 31st May, 2007 compared to 25 days for the year ended 31st May, 2006. There was a decrease in accounts receivable of approximately HK$792.1 million mainly due to a provision made for doubtful debts of HK$548.6 million in response to KPMG's findings.

Assets

Total assets were approximately HK$4,789.7 million as at 31st May, 2007 compared to approximately HK$6,576.9 million as at 31st May, 2006. The decrease of HK$1,787.2 million was mainly attributable to the provision made for accounts receivables, promissory notes, available-for-sale financial assets and other receivables and impairment losses on intangible assets totalling HK$1,986.8 million during the financial year.

As at 31st May, 2007, certain assets of the Group were pledged as security for banking facilities granted to certain overseas subsidiaries of the Group. Assets pledged includes freehold land and buildings with an aggregate net book value of approximately HK$37.4 million as at 31st May, 2007 (2006: approximately HK$52.1 million), certain leasehold rights with an aggregate net book value of approximately HK$18.0 million as at 31st May, 2007 (2006: approximately HK$16.9 million) and inventories with approximate carrying amount of HK$68.6 million as at 31st May, 2007 (2006: approximately HK$57.8 million). Apart from these, the Group had no other pledged assets as at 31st May, 2007.

The Group is not currently in anticipation of any material purchase of capital assets or material investments for the coming year.

In November 2006, the Company privatised Egana Jewellery & Pearls Limited, its Hong Kong listed subsidiary engaged in the jewellery business which was 55% owned by the Company prior to the privatisation. Save as disclosed above, the Group made no other material acquisitions or disposals of subsidiaries and associated companies in the course of the financial year.

During the financial year ended 31st May, 2007, an interim dividend of approximately HK$43.8 million (2006: approximately HK$36 million) was declared and paid on 15th February, 2007 and 30th March, 2007 respectively. No final dividend is proposed for the year ended 31st May, 2007.

Liquidity, Financial Resources and Capital Structure

The net gearing ratio had increased from approximately 0.59 times as at 31st May, 2006 to approximately 5.40 times as at 31st May, 2007, calculated based on the sum of short-term bank borrowings and current portion of long-term liabilities divided by total shareholders' equity. The increase was mainly as a result of the sharp decrease in equity (before minority interests) from approximately HK$1,873.1 million as at 31st May, 2006 to approximately HK$321.3 million as at 31st May, 2007. There was also an increase of short-term bank borrowings of approximately HK$186.4 million (approximately HK$1,291.9 million as at 31st May, 2007 compared to approximately HK$1,105.5 million as at 31st May, 2006), and current portion of long-term liabilities of approximately HK$270.1 million (approximately HK$474.4 million as at 31st May, 2007 compared to approximately HK$204.3 million as at 31st May, 2006).

FINANCIAL REVIEW *(continued)*

Liquidity, Financial Resources and Capital Structure *(continued)*
The Group has a net cash and cash equivalents position of approximately HK$706.8 million as at 31st May, 2007, a decrease by approximately HK$678.5 million compared to prior year, primarily due to an impairment loss on promissory notes of approximately HK$736.4 million made for the year ended 31st May, 2007.

The Group had long-term bank borrowings totalling approximately HK$1,221.6 million as at 31st May, 2007 (2006: approximately HK$1,326.1 million), of which approximately HK$383.4 million was due within one year (2006: approximately HK$170.2 million), and approximately HK$838.2 million was due after one year and within five years (2006: HK$1,155.9 million including HK$0.2 million due after 5 years). Other long-term liabilities comprised notes payable and other loans amounting to approximately HK$87.6 million (2006: HK$39.3 million), of which approximately HK$77.8 million was due within one year (2006: approximately HK$29.6 million), and approximately HK$6.3 million was due after one year and within five years, (2006: approximately HK$6.2 million) and approximately HK$3.5 million was due after five years (2006: approximately HK$3.5 million). As at 31st May, 2007, the Group had obligations under finance leases totalling approximately HK$42.2 million (2006: approximately HK$12.8 million), of which approximately HK$13.2 million was due within one year (2006: approximately HK$4.5 million), and approximately HK$29.0 million was due after one year and within five years (2006: approximately HK$8.3 million).

As at 31st May, 2007, the Group had short-term bank loans and overdrafts of approximately HK$944.3 million (2006: approximately HK$815.6 million) and trust receipts and import loans of approximately HK$347.6 million (2006: approximately HK$290.0 million).

Our revenue and assets were denominated in Euro and Swiss Francs 56%; US$ 31%; HK$ 4% and other 9%. Payments were in Euro and Swiss Francs 42%; US$ 33%; HK$ 17% and other 8%.

During the financial year, the Group entered into forward foreign exchange, gold and silver contracts to hedge against fluctuations in foreign exchange rates. The Group had also bought and sold some currency and silver options during the financial year. The Group's exposure to interest rate risks relates primarily to the Group's long-term debt obligations, which the Company generally assumes to fund capital expenditures and working capital requirements. The Group had entered into interest rates swaps to manage its exposure in this regard.

Save as disclosed above, the Group had no significant capital commitment, material contingent liabilities or off balance sheet obligations as at 31st May, 2007.

As set out in the Company's press announcement of 2nd October, 2007, the Group has requested that all financial creditors exercise forbearance pending implementation of a financial restructuring. Up to the present time, the creditors are exercising such forbearance. The financial restructuring is intended to include an injection of approximately HK$1.2 billion of new funds into the Group through the possible issue by the Company of HK$880 million convertible bonds and the transfer of certain doubtful receivables for approximately HK$325 million, as well as a restructuring of financial indebtedness on terms acceptable to the Group's financial creditors. In the meantime, a bridging loan of HK$300 million from Lifestyle International Holdings Limited was drawn down by the Company in full on 24th September, 2007 for a period of 4 months. The financial restructuring is subject to a number of substantial conditions and may or may not be possible to implement successfully. The outcome of the financial restructuring will have material impact on the bank facilities referred to in this section.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited accounts of EganaGoldpfeil (Holdings) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31st May, 2007 as under.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

An analysis of the Group's turnover and segment information for the year by business and geographical segments is set out in Note 6 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 47.

The Directors have declared an interim dividend of HK3.00 cents (2006: HK2.80 cents) per share, totaling approximately HK$43,802,000 (2006: HK$36,003,000), which was fully paid on 30th March, 2007.

The Directors do not recommend the payment of a final dividend (2006: HK5.00 cents).

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in Note 34 to the accounts.

Under the Companies Law of the Cayman Islands, share premium of the Company is available for distributions or payment of dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or payment of dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, no dividend shall be paid other than out of retained profits of the Company or the amount held in any share premium account. As at 31st May, 2007, the Company's share premium amounted to approximately HK$814,848,000 (2006: HK$372,153,000) while its accumulated losses amounted to approximately HK$2,016,136,000 (2006: retained profits of HK$69,115,000).

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately HK$476,000 (2006: HK$621,000).

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in Note 17 to the accounts.

SHARE CAPITAL

Details of movements in share capital of the Company are set out in Note 33 to the accounts.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Memorandum and Articles of Association of the Company and the Companies Law of the Cayman Islands.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

BANK BORROWINGS
Particulars of bank borrowings as at 31st May, 2007 are set out in Notes 30 and 31 to the accounts. There was no interest capitalised by the Group during the year.

SUBSIDIARIES AND ASSOCIATED COMPANIES
Particulars of the Company's subsidiaries and associated companies as at 31st May, 2007 are set out in Notes 21 and 22 to the accounts respectively.

SHARE OPTION SCHEME

The Company
Share options are granted to the Directors, executives and employees under the Executive Share Option Scheme of the Company (the "Scheme") adopted on 31st May, 1993. Details of the Scheme are as follows:

1.	Purpose of the Scheme	As an incentive to executive management and employees.
2.	Participants of the Scheme	Eligible full-time employees including the Executive Directors of the Company and its subsidiaries.
3.	Total number of shares available for issue under the Scheme and the percentage of issued share capital at 26th October, 2007	1,825,000 shares, representing approximately 0.12% of the issued share capital of the Company as at the date of this Annual Report.
4.	Maximum entitlement of each participant under the Scheme	25% of the aggregate number of shares issued and issuable under the Scheme.
5.	The period within which shares must be taken up under an option	Within a maximum period of 10 years commencing from the date of grant of such options.
6.	The minimum period for which an option must be held before it can be exercised and the percentage of the Shares comprising the options that can be exercised during the period	Year 1: up to 20% of shares comprised in the options at their dates of grant (or if applicable as subsequently adjusted in accordance with the Scheme); Year 2: up to 40% of shares so comprised, less the percentage of shares in respect of which the options were exercised in Year 1; Year 3: up to 60% of shares so comprised, less the percentage of shares in respect of which the options were exercised in Years 1 and 2; Year 4: up to 80% of shares so comprised, less the percentage of shares in respect of which the options were exercised in Years 1, 2 and 3; and Year 5 to 10 (inclusive): all shares so comprised in respect of which the options were not previously exercised.
7.	The amount payable on acceptance of the options	Nominal amount of HK$1.00 upon acceptance of the options.

SHARE OPTION SCHEME *(continued)*

The Company *(continued)*

8. The basis of determining the exercise price

The exercise price is the higher of:

(a) 85% of the average of closing prices of shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") of five business days immediately preceding the date of offer to grant the options; and

(b) the nominal value.

9. The remaining life of the Scheme

The Scheme expired on 31st May, 2003 but the options granted during the tenure of the Scheme shall remain exercisable within 10 years from the date on which the options were granted.

The following shows the particulars of the share options of the Company granted to the Directors, executives and employees of the Group that are required to be disclosed pursuant to Rule 17.07 of Chapter 17 and sub-paragraph 13(1) of Appendix 16 of the Rules Governing of the Listing of Securities on the Stock Exchange (the "Listing Rules") during the year:

Directors	Number of shares comprising the options outstanding at the beginning of the year	Number of options exercised	Number of options lapsed	Number of shares comprising the options outstanding at the end of the year	Date granted	Subscription price per share *HK$*
Hans-Joerg SEEBERGER	12,000,000	—	—	12,000,000	09/01/2000	2.11
Peter Ka Yue LEE	500,000	—	—	500,000	09/01/2000	2.11
Michael Richard POIX	500,000	—	—	500,000	17/01/2000	2.11
Ho Yin CHIK	144,800	144,800	—	—	23/03/1997	3.45
Employees under continuous contracts (excluding Directors)	31,674,400	30,715,600	83,800	875,000	28/01/1997 to 25/02/2000	*
	44,819,200	30,860,400	83,800	13,875,000		

* The options are exercisable at a subscription price of HK$1.28, HK$2.11 or HK$3.45 per share.

Note: The outstanding options can be exercised in accordance with the Scheme at any time from the date on which the options are granted and prior to the expiry of 10 years from that date, provided that up to 20%, 40%, 60% and 80% of the original number of shares comprising the options can be exercised in the 1st, 2nd, 3rd and 4th year from the date granted, respectively.

Except as disclosed above, no options were granted or cancelled during the year.

On 1st September, 2001, amendments to Chapter 17 of the Listing Rules on share option schemes came into effect. If the Company wish to continue to grant options under its scheme on or after 1st September, 2001, they must also comply with the new requirements set out in the Listing Rules. However, all options granted prior to the coming into effect of the said amendments will remain in full force and effect.

Save as disclosed above, no right to subscribe for the securities of the Company or its associated corporations within the meaning of the Securities and Futures Ordinance (the "SFO") has been granted by the Company to, nor have any such rights been exercised by, any person during the year.

DIRECTORS

The Directors who held office during the year and up to the date of this report were as follows:

Executive Directors

Hans-Joerg SEEBERGER *(Executive Chairman)* (passed away on 19th October, 2007)
Peter Ka Yue LEE *(Deputy Chairman)*
Michael Richard POIX *(Chief Executive Officer)*
Ho Yin CHIK
David Wai Kwong WONG (resigned on 13th August, 2007)
Wolfgang Heinz PFEIFER (appointed on 17th November, 2006)
Juergen Ludwig HOLZSCHUH (appointed on 13th August, 2007)

Independent Non-Executive Directors

Professor Udo GLITTENBERG
Dr. Goetz Reiner WESTERMEYER
Andy Yick Man NG (resigned on 31st July, 2007)

In accordance with Article 84 of the Company's Articles of Association, Messrs. Wolfgang Heinz PFEIFER and Juergen Ludwig HOLZSCHUH shall hold office until the first general meeting of the Company, and being eligible, offer themselves for re-election in the forthcoming annual general meeting.

In accordance with Article 92 of the Company's Articles of Association, Mr. Ho Yin CHIK and Dr. Goetz Reiner WESTERMEYER will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

The Company has received from each of our Independent Non-Executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers all Independent Non-Executive Directors independent.

DIRECTORS' SERVICE CONTRACTS

Mr. Hans-Joerg SEEBERGER previously entered into a service agreement with the Company which was expired and had been extended until 31st December, 2007.

Mr. Peter Ka Yue LEE previously entered into a service agreement with the Company which was expired and has been extended until 31st December, 2007.

Mr. Michael Richard POIX previously entered into a service agreement with the Company which was expired and has been extended until 31st December, 2007.

Mr. Ho Yin CHIK has entered into a service agreement with the Company for a term of three years commencing 1st June, 2005 until 31st May, 2008.

Mr. Wolfgang Heinz PFEIFER has entered into a consultancy agreement with the Company for a term of three years until 31st December, 2007 which has been extended until 31 December, 2008.

Mr. Juergen Ludwig HOLZSCHUH has entered into a service agreement with EganaGoldpfeil Europe (Holdings) GmbH, a wholly owned subsidiary of the Company, for a fixed term until 31 May, 2010. These is no service contract entered between the Company and Mr. Holzschuh.

Save as disclosed above, none of the Directors has a service contract which has a duration that exceeds three years or which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, existed at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Hans-Joerg SEEBERGER, founder of the Group, passed away on 19th October, 2007 at the age of 64. He had been the Executive Chairman of the Company and was responsible for the Group's overall strategic planning, objectives setting and corporate development as in the acquisitions of (inter alia) Goldpfeil AG in 1998, Junghans Group in 2000 and Salamander in 2005 as well as strategic alliance with other prominent players in the luxury segment. He also oversaw the Group's operations and business development worldwide including communication programs. As the Executive Chairman of the Company, he was responsible for managing Board affairs and ensuring the Board discharged its functions effectively.

Mr. Peter Ka Yue LEE, aged 61, Deputy Chairman, joined the Group in 1978 and has been an Executive Director of the Company since December 1990. He is responsible for managing the Board's affairs and overseeing the Group's operations in Hong Kong and the Mainland China. Before joining EganaGoldpfeil, he worked as an executive in marketing and corporate management in several international companies in the consumer and manufacturing industries. In 2005, Mr. Lee was awarded the Honorary Associate from the Hong Kong Baptist University in recognition of his contribution to the community.

Mr. Michael Richard POIX, aged 55, Chief Executive Officer, joined the Group in October 1988 and has been an Executive Director of the Company since January 1992. He is responsible for the day-to-day operations of the Group's business particularly in marketing and license management. Mr. Poix previously worked with a large German mail order house, a large German department store organisation as a foreign trader in their trade departments and a retail company in Germany as the head of the purchasing department for watches, jewellery and electronics.

Mr. Ho Yin CHIK, aged 52, Group Treasurer, joined the Group in 1985 and has been an Executive Director of the Company since November 2003. He is responsible for the financial and treasury operations of the Group. He has over 25 years' experience in auditing, financial and treasury fields. He is a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant. Mr. Chik also holds a Degree of Bachelor of Commerce from the University of Southern Queensland.

Mr. Wolfgang Heinz PFEIFER, aged 59, an Executive Director of the Company, oversees the Group's activities in Europe. A graduate in civil engineering and a MBA from Erlangen by Nuremberg, Germany, he has over 15 years' experience in the watch and jewellery industry and is well conversant with the luxury watch segment. As owner of the watch company Glashütte Original, he led his former company to the top of the world's leading luxury watch segment. After selling his company to Swatch Group AG, he joined the board of Swatch Group AG, Switzerland and was chairman of the advisory board of Swatch Group, Germany. In 2005, Mr. Pfeifer joined EganaGoldpfeil as the Chief Delegate of the Board.

Mr. Juergen Ludwig HOLZSCHUH, aged 41, Executive Director of the Company and Finance Director of the Company's subsidiary, EganaGoldpfeil Europe (Holdings) GmbH. He is responsible for overseeing the finance and management of the Group's subsidiaries in Europe. He is also a Director of Salamander GmbH.

Independent Non-Executive Directors

Professor Udo GLITTENBERG, aged 64, has been an Independent Non-Executive Director of the Company since July 1992. He is a professor in business administration, having studied in the United States and Europe. Before establishing two private business schools in Germany, he was the chief executive of a steel and plastics manufacturing group and a team leader in a Chinese-German government co-operation project in Shanghai, China.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Independent Non-Executive Directors *(continued)*
Dr. Goetz Reiner WESTERMEYER, aged 67, has been an Independent Non-Executive Director of the Company since July 1992. He was previously the managing director of a major Japanese consumer electronics company based in Düsseldorf, Germany, for over 14 years, and had worked as an executive in charge of the consumer electronics division of a major conglomerate headquartered in Turkey. He obtained his doctorate in joint venture management from Munich University. He has extensive experience in the import and distribution of consumer electronic products and other consumer products throughout Europe.

Senior Management
Each of the Executive Directors is assigned with the responsibilities to oversee different aspects of the Group's operations worldwide, and they constitute the senior management of the Group.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATION
As at 31st May, 2007, the interests and short positions of the Directors and Chief Executive in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register maintained by the Company under section 352 of the SFO or as notified to the Company were as follows:

The Company

	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total Interests	Total Interests as % of the issued share capital	Underlying shares (share options)	Total Interests (including underlying shares) as % of the issued share capital
Number of shares of HK$1.00 each in the Company								
Hans-Joerg SEEBERGER	–	–	–	485,388,326 *(Note i)*	485,388,326	33.15%	12,000,000 *(Note iii)*	33.97%
Peter Ka Yue LEE	531,377	–	8,279,998 *(Note ii)*	–	8,811,375	0.60%	500,000 *(Note iii)*	0.64%
Michael Richard POIX	2,923,500	–	–	–	2,923,500	0.20%	500,000 *(Note iii)*	0.23%
Ho Yin CHIK	163,512	–	–	–	163,512	0.01%	–	0.01%
Professor Udo GLITTENBERG	116,751	–	–	–	116,751	0.01%	–	0.01%
Dr. Goetz Reiner WESTERMEYER	291,877	–	–	–	291,877	0.02%	–	0.02%

Notes:

i. These shares were registered in the name of Peninsula International Limited ("PIL") and its nominee which held the same as nominee for the Captive Insurance Trust, a discretionary trust whose prospective beneficiaries included Mr. Hans-Joerg SEEBERGER and his family.

ii. These shares were beneficially owned by Joshua Limited, a company which was wholly and beneficially owned by Mr. Peter Ka Yue LEE.

iii. The options, exercisable at HK$2.11 per share, were granted pursuant to the Scheme.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATION *(continued)*

Associated Corporation

Tonic Industries Holdings Limited ("Tonic")

	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total Interests	Total Interests as % of the issued share capital	Underlying shares (share options)	Total Interests (including underlying shares) as % of the issued share capital
Number of shares of HK$0.10 each in Tonic								
Hans-Joerg SEEBERGER	–	–	–	194,404,303 *(Note i)*	194,404,303	20.40%	–	20.40%
Peter Ka Yue LEE	–	–	–	–	–	–	2,715,000 *(Note ii)*	0.28%

Notes:

i The shares were held by wholly-owned subsidiaries of the Company. By virtue of his interest in the Company through PIL and the Captive Insurance Trust (a discretionary trust whose prospective beneficiaries included Mr. Hans-Joerg SEEBERGER and his family), Mr. Seeberger was deemed to be interested in these shares. Mr. Seeberger ceased to have an interest in Tonic after the Company had disposed all of these shares in Tonic in September 2007.

ii. The options, exercisable at HK$0.467 per share, were granted pursuant to Tonic's share option scheme. Mr. Lee resigned as director of Tonic on 3rd August, 2007 and the options lapsed accordingly.

Certain Directors held certain nominee shares in subsidiaries in trust for the Company or its subsidiaries as at 31st May, 2007.

Save as disclosed above, as at 31st May, 2007, none of the Directors or Chief Executive of the Company had any interests or short positions in the shares and underlying shares of the Company or its associated corporation within the meaning of Part XV of the SFO which were required to be notified to the Stock Exchange and the Company pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") or which are required to be entered in the register under section 352 of the SFO.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS OTHER THAN THE DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY

As at 31st May, 2007, the following persons, other than the Directors and Chief Executive of the Company, held interests in the shares or underlying shares of the Company as recorded in the register maintained by the Company under section 336 of the SFO:

	Beneficial Owner	Corporate Interest	Investment Manager	Security Interests	Total Interests	Total Interest as % of issued share capital
Number of shares of HK$1.00 each in the Company						
Credit Agricole Asset Management	–	75,412,000	956,097	–	76,368,097	5.22%
UBS AG	29,195,800	26,810,300	–	17,834,991	73,841,091	5.04%

Note: All the interests stated above represent long positions.

Save as disclosed above, as at 31st May, 2007, the Company had not been notified by any other person (other than the Directors and Chief Executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register maintained by the Company under section 336 of the SFO.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers in aggregate accounted for less than 30% of the total sales for the year.

During the year, the five largest suppliers in aggregate accounted for approximately 33% of the total purchases of the Group and the largest supplier accounted for approximately 9% of the total purchases of the Group.

As at 31st May, 2007, none of the Directors, their associates, or any shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers or suppliers.

EMPLOYEES

As at 31st May, 2007, the Group employed approximately 7,400 staff. Remuneration is determined by reference to the employees' performance, qualifications, relevant working experiences and the prevailing market conditions. Incentive and performance-based bonus systems are in place to motivate and reward employees to achieve the Company's business performance targets.

CONTINUING CONNECTED TRANSACTIONS

Details of the continuing connected transactions for the year are set out in Note 39(b) to the accounts. The Independent Non-Executive Directors have reviewed the continuing connected transactions set out in Note 39(b) and confirmed that the transactions had been entered into:

1. in the ordinary and usual course of business of the Company;

2. either on normal commercial terms or, if there were not sufficient comparable transactions to judge whether they were on normal commercial terms, on terms no less favourable to the Company than terms available from independent third parties as appropriate;

3. in accordance with the relevant agreement governing them, on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

4. the aggregate value of the continuing connected transactions during the year ended 31st May, 2007 did not exceed the annual cap amount of HK$38,000,000 and each of the percentage ratios (other than the profits ratio) calculated pursuant to Rule 14.07 of the Listing Rules is on an annual basis less than 2.5%.

The above continuing connected transactions have been reviewed by the auditors of the Company who confirmed that during the year the above transactions had been conducted in a manner which satisfies the following conditions:–

1. The continuing connected transactions had been:

   (i) approved by the Board of Directors;

   (ii) entered into in accordance with the pricing policy as stated in the relevant agreement; and

   (iii) entered into in accordance with the relevant agreement governing them.

2. The aggregate value of the continuing connected transactions during the year ended 31st May, 2007 did not exceed the annual cap disclosed in the Company's announcement dated 23rd February, 2007.

Save as disclosed above, there was no other transaction that was needed to be disclosed as continuing connected transaction in accordance with the requirements of the Listing Rules.

COMPLIANCE WITH THE CONTINUING DISCLOSURE REQUIREMENT UNDER RULE 13.21 OF THE LISTING RULES

As at the date of this Annual Report, the following obligations continue to exist.

On 3rd June, 2005, the Company's wholly-owned subsidiary entered into a loan agreement with a syndicate of banks in respect of a EUR60,000,000 loan facility ("EUR60 Million Loan Facility"). The proceeds were used exclusively to (i) refinance the acquisitions of the Salamander Trademark, Salamander Leather and Footwear Businesses in Europe (except Germany) and Salamander Retail Shops operations in Germany (these transactions have been disclosed in the Company's announcement dated 7th March, 2005 and a circular dated 24th March, 2005) and (ii) finance the Company's general working capital requirements. EUR12,500,000 was repaid in June 2006 and the remaining EUR47,500,000 Loan Facility should be repaid in full on or before 8th June, 2010.

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

REPORT OF THE DIRECTORS

COMPLIANCE WITH THE CONTINUING DISCLOSURE REQUIREMENT UNDER RULE 13.21 OF THE LISTING RULES *(continued)*

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

On 15th June, 2007, the Company entered into a loan agreement with banks for a three-year term loan facility amounting to HK$1,000,000,000 ("HK$1 Billion Loan Facility"). The proceeds were to be used to refinance the Company's indebtedness under a HK$300,000,000 syndicated loan obtained in January 2005 and for the Company's general working capital requirements. The HK$1 Billion Loan Facility should be repaid in full on or before 15th June, 2010.

It is a condition of each of the aforesaid Facilities that Mr. Seeberger or PIL (the single largest controlling shareholder of the Company) and their respective associates (as defined in the Listing Rules) shall maintain beneficial ownership of not less than 30% of the issued shares of the Company and shall not sell, transfer, encumber or otherwise dispose of all or part of the shareholdings in the Company for financing purposes.

Breach of the above condition will constitute an event of default under the respective Facility. If such an event of default occurs, all amounts outstanding, including the accrued interest and all other sums payable, under the respective Facility may become immediately due and payable. Following the Bridging Loan referred to below and Mr. Seeberger's death, the Company is seeking waivers of the relevant conditions as appropriate.

On 23rd September, 2007, the Company entered into an agreement with a wholly-owned subsidiary of Lifestyle International Holdings Limited ("Lifestyle") for a loan of HK$300 million (the "Bridging Loan"), which was drawn down in full on 24th September, 2007. The Bridging Loan has a term of four months from 24th September, 2007 and is secured by (inter alia) a charge over 434,345,736 shares in the Company held by Joint Asset International Limited ("Joint Asset Shares"), a wholly owned subsidiary of PIL. The Joint Asset Shares represent approximately 29.67% of the issued share capital of the Company.

PUBLIC FLOAT

On the basis of information that is publicly available to the Company and within the knowledge of the Directors, the Company has complied with the public float requirements of the Listing Rules as at the date of this Annual Report.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors has interests in any business that competes or is likely to compete, either directly or indirectly, with the business of the Company during the year ended 31st May, 2007 and up to the date of this Annual Report.

SUBSEQUENT EVENTS

Details of significant subsequent events are set out in Note 40 to the accounts.

AUDITORS

RSM Nelson Wheeler acted as auditors of the Company for the year ended 31st May, 2004. RSM Nelson Wheeler resigned on 11th April, 2005 and the Directors appointed Baker Tilly Hong Kong Limited to fill the casual vacancy. Baker Tilly Hong Kong Limited audited the Company's accounts for the years ended 31st May, 2005, 31st May, 2006 and 31st May, 2007 respectively.

On behalf of the Board
EganaGoldpfeil (Holdings) Limited
Peter Ka Yue LEE
Deputy Chairman

Hong Kong, 26th October, 2007

REPORT OF THE INDEPENDENT AUDITORS

BAKER TILLY
HONG KONG LIMITED
CERTIFIED PUBLIC ACCOUNTANTS
香港天華會計師事務所有限公司

REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF EGANAGOLDPFEIL (HOLDINGS) LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated accounts of EganaGoldpfeil (Holdings) Limited set out on pages 47 to 130 which comprise the consolidated and company balance sheets as at 31st May, 2007, and the consolidated profit and loss account, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of principal accounting policies and other explanatory notes.

RESPONSIBILITIES OF THE DIRECTORS FOR THE ACCOUNTS
The Directors are responsible for the preparation and the true and fair presentation of these accounts in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

RESPONSIBILITIES OF AUDITORS
Our responsibility is to express an opinion on these accounts based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the accounts are free from material misstatement in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the accounts. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the accounts, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

REPORT OF THE INDEPENDENT AUDITORS

BASIS OF DISCLAIMER OF OPINION

1. **Scope limitation – material sales transactions and receivable provision**
   Included in consolidated turnover of $7,025,459,000 were recorded sales of $1,816,741,000 to several customers during the year ended 31st May, 2007. The recorded gross profit arising on these transactions in the amount of $448,040,000 has been included in determining the Group's gross profit of $2,573,373,000. The consolidated net loss to the equity holders of the Company for the year of $1,959,408,000 includes a full provision of $548,646,000 against the year end outstanding balances due from these same customers. We were unable to obtain reasonable representations and assurances from management that these sales transactions represented genuine sales to independent third party customers. Accordingly, we were unable to satisfy ourselves as to the original sales, the related costs thereof, the gross profit so arising, or the appropriateness of the provision made in respect of the outstanding balances.

2. **Fundamental uncertainty relating to the going concern basis**
   As explained in Note 2 to the accounts, that the Group incurred a consolidated net loss to the equity holders of the Company of $1,959,408,000 for the year ended 31st May, 2007 and had consolidated net current liabilities of $17,703,000 at 31st May, 2007. The accounts have been prepared on a going concern basis, the validity of which is dependent on the successful outcome of the proposed acquisition of a controlling interest in the Company, and related proposed funding, by a prospective investor, and the Group's current negotiations with its principal bankers regarding a rescheduling of the Group's bank borrowings. The accounts do not include any adjustments that would result from a failure to obtain such funding support. We consider that appropriate disclosures have been made. However, the uncertainty surrounding the outcome of this proposed acquisition and funding by a prospective investor and negotiations with the principal bankers raises a significant doubt regarding the Group's ability to continue as a going concern.

DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY THE ACCOUNTS
Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, we do not express an opinion as to whether the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st May, 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion, the accounts have been properly prepared in accordance with disclosure requirements of the Hong Kong Companies Ordinance.

Baker Tilly Hong Kong Limited
Certified Public Accountants

Andrew David Ross
Practising Certificate Number P01183

Hong Kong, 26th October, 2007

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(For the year ended 31st May, 2007)

	Notes	**2007** **HK$'000**	2006 HK$'000
Turnover	*6*	**7,025,459**	5,975,450
Cost of sales		**(4,452,086)**	(3,641,406)
Gross profit		**2,573,373**	2,334,044
Other revenues	*7*	**148,392**	110,266
Distribution costs		**(1,543,601)**	(1,308,469)
Administrative expenses		**(785,903)**	(651,408)
Impairment losses on assets	*8*	**(1,986,830)**	(12,367)
Operating (loss)/profit	*6, 9*	**(1,594,569)**	472,066
Finance costs	*10*	**(308,533)**	(137,284)
(Loss)/profit before share of profit of associated companies		**(1,903,102)**	334,782
Share of profit of associated companies		**82,730**	10,363
(Loss)/profit before taxation		**(1,820,372)**	345,145
Taxation	*11*	**(119,821)**	(5,923)
(Loss)/profit for the year		**(1,940,193)**	339,222
Attributable to:			
Equity holders of the Company	*12, 34*	**(1,959,408)**	304,957
Minority interests		**19,215**	34,265
		(1,940,193)	339,222
Dividends	*13*	**43,802**	100,294
(Loss)/earnings per share	*14*		
Basic		**(141.46) cents**	23.85 cents
Diluted		**N/A**	23.73 cents

CONSOLIDATED BALANCE SHEET

(As at 31st May, 2007)

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Fixed assets	*17*	**467,305**	416,649
Leasehold land	*18*	**20,214**	20,907
Intangible assets	*19*	**651,526**	833,341
Deferred tax assets	*20(b)*	**54,467**	144,793
Interests in associated companies	*22*	**200,131**	161,461
Available-for-sale financial assets	*23*	**186,684**	296,398
Derivative financial instruments	*27*	**3,980**	6,045
		1,584,307	1,879,594
Current assets			
Inventories	*24*	**1,418,799**	1,318,602
Accounts receivable, net	*25*	**709,546**	1,501,662
Deposits, prepayments and other receivables		**332,440**	461,178
Due from associated companies	*39*	**34,431**	19,908
Investments held for trading	*26*	**123**	312
Derivative financial instruments	*27*	**3,284**	10,426
Cash and cash equivalents	*35(e)*	**706,785**	1,385,251
		3,205,408	4,697,339
Current liabilities			
Accounts payable, accruals and other payables	*28*	**(1,113,014)**	(1,331,230)
Bills payable		**(168,146)**	(249,808)
Provisions	*29*	**(55,103)**	(8,524)
Derivative financial instruments	*27*	**(81,948)**	(37,570)
Short-term bank borrowings	*30*	**(1,291,934)**	(1,105,516)
Current portion of long-term liabilities	*31*	**(474,350)**	(204,261)
Current portion of pensions and other post retirement obligations	*32*	**(16,938)**	(15,470)
Due to associated companies	*39*	**(2,475)**	(6,449)
Due to a Director	*39*	**(42)**	(42)
Loan from a minority shareholder	*39*	**(1,442)**	(1,349)
Taxation payable		**(17,719)**	(12,707)
		(3,223,111)	(2,972,926)
Net current (liabilities)/assets		**(17,703)**	1,724,413
Total assets less current liabilities		**1,566,604**	3,604,007

CONSOLIDATED BALANCE SHEET

(As at 31st May, 2007)

	Notes	**2007** **HK$'000**	2006 HK$'000
Non-current liabilities			
Long-term liabilities	*31*	**(877,133)**	(1,173,902)
Pensions and other post retirement obligations	*32*	**(224,701)**	(211,000)
Derivative financial instruments	*27*	**(129,398)**	(2,029)
Deferred tax liabilities	*20(b)*	**(8,413)**	(6,502)
		(1,239,645)	(1,393,433)
Net assets		**326,959**	2,210,574
Capital and reserves			
Share capital	*33*	**1,464,001**	1,285,810
Reserves	*34*	**(1,142,741)**	587,273
Equity attributable to equity holders of the Company		**321,260**	1,873,083
Minority interests		**5,699**	337,491
Total Equity		**326,959**	2,210,574

Approved by the Board of Directors on 26th October, 2007 and signed on behalf of the Board by

Peter Ka Yue LEE
Director

Michael Richard POIX
Director

BALANCE SHEET

(As at 31st May, 2007)

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Interests in subsidiaries	*21*	**261,077**	417,930
Available-for-sale financial assets	*23*	**7,620**	6,657
Derivative financial instruments	*27*	**865**	123
		269,562	424,710
Current assets			
Dividend receivable from a subsidiary		**—**	20,000
Deposits, prepayments and other receivables		**8,661**	2,603
Due from subsidiaries	*21(a)*	**434,832**	1,788,757
Derivative financial instruments	*27*	**822**	—
Tax recoverable		**1,654**	1,654
Cash and bank balances		**17,099**	21,852
		463,068	1,834,866
Current liabilities			
Accounts payable, accruals and other payables	*28*	**(2,026)**	(9,536)
Due to subsidiaries	*21(a)*	**(5,807)**	(56,464)
Derivative financial instruments	*27*	**(9)**	(1,189)
Current portion of long-term liabilities	*31*	**(292,680)**	(114,960)
		(300,522)	(182,149)
Net current assets		**162,546**	1,652,717
Total assets less current liabilities		**432,108**	2,077,427
Non-current liabilities			
Long-term liabilities	*31*	**(118,560)**	(309,840)
Derivative financial instruments	*27*	**(10,261)**	(899)
		(128,821)	(310,739)
Net assets		**303,287**	1,766,688
Capital and reserves			
Share capital	*33*	**1,464,001**	1,285,810
Reserves	*34*	**(1,160,714)**	480,878
Total equity		**303,287**	1,766,688

Approved by the Board of Directors on 26th October, 2007 and signed on behalf of the Board by

Peter Ka Yue LEE
Director

Michael Richard POIX
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(For the year ended 31st May, 2007)

	Notes	**2007 HK$'000**	2006 HK$'000
Total equity, beginning of year		**2,210,574**	1,932,677
Share of an associated company's exchange translation reserve	*34*	**2,503**	325
Revaluation of listed available-for-sale financial assets	*34*	**96,978**	(16,714)
Exchange differences arising on translation of the accounts of foreign subsidiaries and associated companies	*34*	**(19,486)**	9,992
Net gain/(loss) recognised directly in equity		**79,995**	(6,397)
(Loss)/profit for the year	*34*	**(1,940,193)**	339,222
Total recognised (loss)/gain for the year*		**(1,860,198)**	332,825
Issuance of convertible bonds of a subsidiary	*34*	**—**	22,803
Acquisition of additional interests in subsidiaries	*34*	**(522,803)**	—
Realisation of reserves upon disposal of listed available-for-sale financial assets	*34*	**(592)**	(129)
Realisation of reserves upon disposal of unlisted available-for-sale financial assets	*34*	**—**	(11,324)
Realisation of reserves upon recognition of impairment loss on unlisted available-for-sale financial assets	*34*	**(5,243)**	—
Scrip and cash dividends	*34*	**(115,326)**	(80,681)
Dividends paid to minority shareholders	*34*	**(339)**	(9,167)
Shares issued upon conversion of convertible bonds	*33*	**—**	14,524
Conversion of convertible bonds	*34*	**—**	9,066
Shares issued upon exercise of share options	*33*	**30,860**	—
Shares issued under scrip dividend scheme	*33*	**11,265**	—
Shares issued in relation to privatisation of a subsidiary	*33*	**136,066**	—
Premium arising from exercise of share options	*34*	**35,280**	—
Premium arising from issue of shares in relation to privatisation of a subsidiary	*34*	**376,902**	—
Premium arising from issue of shares under scrip dividend scheme	*34*	**30,577**	—
Expenses incurred in connection with conversion of convertible bonds and issue of shares	*34*	**(64)**	(20)
Total equity, end of year		**326,959**	2,210,574

	2007	2006
* Attributable to equity holders of the Company	**(1,900,505)**	303,395
Attributable to minority interests	**40,307**	29,430
	(1,860,198)	332,825

CONSOLIDATED CASH FLOW STATEMENT

(For the year ended 31st May, 2007)

	Notes	**2007**	2006
		HK$'000	HK$'000
Operating activities			
Net cash inflow/(outflow) from operations	*35(a)*	**232,481**	(149,668)
Interest paid		**(163,233)**	(108,685)
Hong Kong profits tax paid		**(7,636)**	(5,574)
Overseas profits tax paid		**(35,025)**	(24,512)
Hong Kong profits tax refund		**1,360**	1,061
Overseas profits tax refund		**4,680**	1,384
Net cash inflow/(outflow) from operating activities		**32,627**	(285,994)
Investing activities			
Purchase of fixed assets		**(118,471)**	(135,668)
Proceeds from disposal of fixed assets		**31,450**	3,730
Purchase of intangible assets		**(21,432)**	(20,260)
Proceeds from disposal of intangible assets		**5,955**	22,274
Interest received		**79,150**	54,826
Dividends received		**60,785**	4,112
Purchase of subsidiaries	*35(c)*	**—**	1,915
Purchase of additional interests in subsidiaries		**(845)**	—
Purchase of additional interest in an associated company	*22(a)*	**(23,164)**	—
Purchase of available-for-sale financial assets		**(6,378)**	(31)
Proceeds from disposal of available-for-sale financial assets		**1,704**	173,735
Proceeds from disposal of investment held for trading		**201**	—
Expenses incurred for privatisation of a subsidiary	*35(d)*	**(8,991)**	—
Net increase in promissory notes		**(736,391)**	—
Net decrease in short-term investments		**—**	83,000
Redemption of short-term investments		**—**	3,220
Net cash (outflow)/inflow from investing activities		**(736,427)**	190,853
Net cash outflow before financing activities		**(703,800)**	(95,141)

CONSOLIDATED CASH FLOW STATEMENT

(For the year ended 31st May, 2007)

	Notes	2007 HK$'000	2006 HK$'000
Financing activities	*35(b)*		
Repayment of obligations under finance leases		**(11,068)**	(10,304)
Expenses incurred in connection with issue of shares and conversion of convertible bonds		**(64)**	(20)
Issue of shares upon exercise of share options		**66,141**	—
Waiver of subscription rights and option in respect of convertible bonds of a subsidiary		**—**	(2,950)
Net proceeds from/(repayment of) short-term bank borrowings		**143,502**	(23,750)
Net (repayment of)/proceeds from long-term bank borrowings		**(156,015)**	743,966
Net proceeds from other loans		**47,923**	5,121
Proceeds from issue of convertible bonds		**—**	39,000
Repayment of convertible bonds		**—**	(14)
Dividends paid		**(73,484)**	(80,681)
Dividends paid to minority shareholders of subsidiaries		**(339)**	(9,167)
Net cash inflow from financing activities		**16,596**	661,201
(Decrease)/increase in cash and cash equivalents		**(687,204)**	566,060
Cash and cash equivalents, beginning of year		**1,385,251**	812,895
Effect of foreign exchange rate changes		**8,738**	6,296
Cash and cash equivalents, end of year	*35(e)*	**706,785**	1,385,251

1. ORGANISATION AND OPERATIONS

EganaGoldpfeil (Holdings) Limited (the "Company") was incorporated in the Cayman Islands on 7th December, 1990. The registered office of the Company is located at P.O. Box 1787, 2nd Floor, One Capital Place, George Town, Grand Cayman, Cayman Islands, British West Indies.

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

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

2. BASIS OF PREPARATION OF ACCOUNTS

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets, investments held for trading and certain financial instruments, which are carried at fair values.

The preparation of accounts in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise their judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in Note 4.

In preparing the accounts, the Directors of the Company have given careful consideration to the future liquidity of the Group in light of the Group having consolidated net current liabilities of $17,703,000 as at 31st May, 2007 and having incurred consolidated net loss to the equity holders of the Company of $1,959,408,000 for the year then ended. Subsequent to 31st May, 2007, most of the Group's bankers suspended their credit facilities to the Group. As at the date of approval of these accounts, the Group is unable to meet all of its obligations to banks when due. The Group's liquidity and its ability to meet its operating costs are dependent on the Group's bankers continuing to exercise forbearance pending the outcome of the proposed acquisition and restructuring referred to below.

As mentioned in the Note 40 (e), Lifestyle International Holdings Limited ("Lifestyle") has proposed to acquire approximately 29.67% of the shares in the Company from Peninsula International Limited ("PIL"), a controlling shareholder of the Company. As part of Lifestyle's proposal, a bridging loan of $300 million was provided to the Group on 24th September, 2007 for a term of four months from 24th September, 2007. Upon the completion of the abovementioned acquisition, the Company will issue convertible bonds of $880 million to Lifestyle. The Group has also actively discussed with its principal bankers regarding a rescheduling of the Group's bank borrowings.

Provided that the acquisition by Lifestyle and the consequent issue of convertible bonds can be completed, and the agreements can be reached with the principal bankers for the rescheduling of the Group's bank borrowings, the Directors are satisfied that the Group will be able to meet its financial obligations as they fall due and to finance its future working capital and financial requirements. Accordingly, the accounts have been prepared on a going concern basis. Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities to current assets and current liabilities. The effect of these adjustments has not been reflected in the accounts.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. BASIS OF PREPARATION OF ACCOUNTS *(Cont'd)*

The HKICPA has issued certain new and revised HKFRSs that are first effective for the current accounting period of the Group and the Company. These changes in standards have not resulted in any substantial changes to the Group's results of operations and financial position.

At the date of approval of these accounts, the following standards and interpretations were in issue but not yet effective for the year ended 31st May, 2007.

HKAS 1 (Amendment)	*Note a*	Capital disclosures
HKAS 23 (Revised)	*Note b*	Borrowing costs
HKFRS 7	*Note a*	Financial instruments: Disclosures
HKFRS 8	*Note b*	Operating segments
HK(IFRIC)-Int 10	*Note c*	Interim financial reporting and impairment
HK(IFRIC)-Int 11	*Note d*	HKFRS 2-Group and treasury share transactions
HK(IFRIC)-Int 12	*Note e*	Service concession arrangements
HK(IFRIC)-Int 13	*Note f*	Customer loyalty programmes
HK(IFRIC)-Int 14	*Note e*	HKAS 19-The limit on a defined benefit asset, minimum funding requirements and their interaction

Note a: effective for annual periods beginning on or after 1st January, 2007
Note b: effective for annual periods beginning on or after 1st January, 2009
Note c: effective for annual periods beginning on or after 1st November, 2006
Note d: effective for annual periods beginning on or after 1st March, 2007
Note e: effective for annual periods beginning on or after 1st January, 2008
Note f: effective for annual periods beginning on or after 1st July, 2008

The Group has commenced considering the potential impact of the above new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. PRINCIPAL ACCOUNTING POLICIES

(a) Group accounting

(i) Basis of consolidation

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

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

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

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

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

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

(ii) Business combinations

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

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

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

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

(iii) Associated companies

Associated companies are all entities in which the Group has significant influence, but not control or joint control, over their management, including participation in the financial and operating policy decisions generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for under the equity method of accounting and are initially recognised at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associated companies, less any identified impairment losses. The Group's investment in associated companies includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associated companies' post-acquisition profits or losses is recognised in the profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any long-term interests that, in substance, form part of the Group's net interest in the associated company, the Group discontinues recognising its share of further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associated company.

Unrealised gains and losses on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies except where, unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit or loss account.

(iv) Minority interests

Minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to equity holders of the Company, and minority interests in the results of the Group for the year are presented on the face of the consolidated profit and loss account as an allocation of the total profit or loss for the year between the minority interests and the equity holders of the Company.

The Group applies a policy of treating transactions with minority interests as transactions with equity participants of the Group. Gains and losses resulting from the disposals to minority interests are recorded in equity. The differences between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired, resulting from the purchase from minority interests, are recorded in equity.

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

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

(v) Foreign currencies

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

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated accounts. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

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

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

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising thereon are recognised in the translation reserve.

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

(b) Fixed assets

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

(ii) Buildings
All buildings held for own use which are situated on freehold and leasehold land are presented as part of fixed assets. Buildings are stated at cost less accumulated depreciation and impairment losses.

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

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

Freehold land	Nil
Buildings	2% to 5%
Leasehold improvements	10% to 50%
Furniture and equipment	15% to 33 1/3%
Motor vehicles	25%

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

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

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

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

(c) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of the assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in liabilities recorded as appropriate under current and non-current liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives and the lease periods.

(ii) Operating leases

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

(d) Leasehold land

The up-front prepayments made for leasehold land are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account.

(e) Intangible assets

(i) Goodwill/Discount on acquisition

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

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each country of operation by each primary reporting segment. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the profit and loss account. An impairment loss for goodwill is not reversed in subsequent periods.

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

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

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

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

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

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

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

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

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

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

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

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

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

(ii) **Trademarks**

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

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

In accordance with HKAS 36 "Impairment of assets", the Group completed its annual impairment test for the trademarks by comparing their recoverable amounts to their carrying amounts as at 31st May, 2007. The Group appointed LCH (Asia-Pacific) Surveyors Limited, independent professional valuer, to conduct valuations of the trademarks based on value-in-use calculation. The valuations use cash flow projections based on financial estimates covering a twelve-month period, expected royalty rates deriving from the trademarks in the range of 7% to 10% and a discount rate of 10.6%. The cash flows are extrapolated using a steady long-term growth rate of 5%. This growth rate does not exceed the long-term average growth rate for luxury consumer markets in which the Group operates. The Directors have considered the above assumptions and valuations and also taken into account the business development going forward and the strategic distribution expansion worldwide, and determined that certain trademarks associated with the Group's jewellery and leather and lifestyle segments were impaired by approximately $81,513,000. In the opinion of the Directors, no write-down of the carrying amounts of other trademarks was necessary as their resulting values as at 31st May, 2007 were significantly higher than their carrying amounts. The Directors believe that any reasonably foreseeable change in any of the above key assumptions would not cause the aggregate carrying amounts of the trademarks to exceed the aggregate recoverable amounts.

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

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

(iii) Research and development costs

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

(iv) Other intangible assets

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

(f) Impairment of assets other than financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised immediately in the profit and loss account for the amount by which the asset's carrying amount exceeds its recoverable amount except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a decline in revaluation. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

In respect of assets other than goodwill, impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and the circumstances and events leading to the impairment cease to exist. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

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

(g) Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

(i) Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated as at fair value through profit or loss on initial recognition.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

- At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss account in the period in which they arise.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including accounts receivables, deposits, prepayments and other receivables, amounts due from associated companies, promissory notes and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses.

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

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

(i) **Financial assets** *(Cont'd)*

(c) Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss or loans and receivables. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in the profit or loss account.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

(ii) **Impairment**
The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred, if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets and have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

a. significant financial difficulty of the debtor or obligor;

b. the Group granting to the debtor or obligor, for economic or legal reasons relating to the debtor's or obligor's financial difficulty, a concession that the Group would not otherwise consider;

c. it is becoming probable that the debtor or obligor will enter into bankruptcy or other financial reorganisation;

d. the disappearance of an active market for that financial asset because of financial difficulties;

e. observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including:

1. adverse changes in the payment status of debtors or obligors in the Group;

2. economic conditions that correlate with defaults on the assets in the Group.

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

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

(ii) Impairment *(Cont'd)*

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial assets, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assessed them for impairment. Assets that are individually assessed for impairment and which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics relevant to the estimation of future cash flows. These financial assets are collectively assessed based on historical loss experience on each type of assets and management judgement of the current economic and credit environment.

Loans and receivables

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets' carrying amounts and the present values of estimated future cash flows discounted at the financial assets' original effective interest rates. The carrying amount of the asset is reduced through the use of a doubtful debt allowance account and the amount of the loss is recognised in the profit and loss account.

When there is no realistic prospect of recovery of a loan or receivable, it is written off against the related provision for impairment loss. Subsequent recovery of the amount previously written off is reversed against the provision for impairment loss in the profit and loss account.

As soon as a loan or receivable becomes impaired, the Group may continue to provide services or facilities to the debtor or obligor but no further accounts receivable is recognised on balance sheet as economic benefits may not flow to the Group. The revenue concerned is not recognised but tracked as doubtful deferred revenue and will only be recognised as income when received.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the doubtful debt allowance account, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. The amount reversed is recognised in the profit and loss account.

Available-for-sale financial assets

If there is objective evidence that an impairment loss on available-for-sale financial assets has been incurred, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognised in the profit and loss account) is removed from investment revaluation reserve and recognised in the profit and loss account.

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

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

(ii) Impairment *(Cont'd)*

Available-for-sale financial assets *(Cont'd)*
In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the securities below their cost is considered in determining whether the securities are impaired. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. Any subsequent increase in the fair value of such assets is recognised in investment revaluation reserve.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in the profit or loss account, the impairment loss is reversed through the profit and loss account up to the amount previously charged to the profit and loss account and any further increase in fair value thereafter is treated as a revaluation movement.

(iii) Financial liabilities and equity
Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

(a) Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated as at fair value through profit or loss on initial recognition.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the profit or loss account in the period in which they arise.

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

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

(iii) Financial liabilities and equity *(Cont'd)*

(b) Other financial liabilities
Other financial liabilities (including accounts payable, accruals and other payables, bills payable, provisions, bank and other borrowings, amounts due to associated companies and a Director and loan from a minority shareholder) are subsequently measured at amortised cost, using the effective interest method.

(c) Equity instruments
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Consideration paid to reacquire the Company's own equity instruments are deducted from equity. No gain or loss is recognised in the profit or loss account.

(iv) Derivative financial instruments
Derivative financial instruments arise from forward, option and swap transactions undertaken by the Group in the precious metals, foreign exchange and interest rate markets.

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

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

(v) Embedded derivatives
Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in the profit or loss account.

(vi) Financial guarantee contracts
A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified entity or person fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are accounted for as financial instruments under HKAS 39 and are initially recognised at fair value. Subsequently, such contracts are measured at the higher of the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised less, where appropriate, cumulative amortisation recognised over the life of the guarantee on a straight-line basis.

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

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

(vii) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the profit or loss account.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in the profit or loss account.

(h) Inventories

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

(i) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(i) Warranty provision

The Group recognises a provision for repairs or replacement of products still under warranty at the balance sheet date. This provision is calculated based on past history of the level of repairs and replacements.

(ii) Restructuring provisions

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

3. 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 number of defined benefits plans and a defined contribution plan throughout the world. The defined benefits plans are unfunded. The assets of the defined contribution plan are held in separate trustee–administered funds. The defined contribution plan is funded by payments from employees and by the relevant Group companies.

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

For defined benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. The discount rate is the yield at the balance sheet date on government securities which have terms to maturity approximating the terms of the Group's obligations. Actuarial gains and losses which exceed 10 per cent of the greater of the present value of the Group's pension obligations and the fair value of plan assets are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

The amount recognised in the consolidated balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

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

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

(iv) Share-based payments

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

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

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

As all the Group's options were granted to option holders before 7th November, 2002, the Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied.

(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 discount on acquisition) or from initial recognition of assets and liabilities in a transaction (other than in a business combination) that affects neither the taxable profit nor the accounting profit.

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

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

(k) Taxation *(Cont'd)*

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

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

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

(l) Contingent liabilities and contingent assets

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

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

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the accounts, where necessary, when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(m) Turnover

Turnover represents (i) gross invoiced sales, net of discounts and returns; (ii) income from licensing or assignment of brandnames or trademarks; (iii) commission income from trading business; and (iv) inspection service fee income.

3. **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. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Income from licensing of brandnames or trademarks

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

(iii) Income from assignment of brandnames or trademarks

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

(iv) Commission income

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

(v) Franchising income

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

(vi) Inspection service income

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

(vii) Interest income

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(viii) Rental income

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

(ix) Dividend income

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

3. 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 structure, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Critical accounting estimates and assumptions

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

(a) Going concern assumption in the preparation of the accounts

Details of assumptions adopted by the Directors of the Company for adopting the going concern basis in preparing the 2007 accounts are provided in Note 2.

(b) Impairment on accounts receivable, other receivables and promissory notes

The policy for allowances for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required. For the year ended 31st May, 2007, impairment loss of approximately $1,565,048,000 was recognised in the profit and loss account.

(c) Allowances for inventories

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

(d) Impairment on goodwill and trademarks

Determining whether goodwill or trademark is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated and the trademark. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and the trademark and a suitable discount rate in order to calculate present value. Details of the impairment loss calculation are provided in Note 19.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Cont'd)*

(e) Taxation

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

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

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

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

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Currency risk

The Group uses derivative financial instruments (primarily foreign currency forward and option contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions (see Note 27). The use of financial derivatives is governed by the Group's policies approved by the management of the Company, which provide general principles on the use of financial derivatives consistent with the Group's risk management strategy.

Certain bank borrowings of the Group are denominated in foreign currencies (see Notes 30 and 31). The Group currently does not have a foreign currency hedging policy in respect of foreign currency debt. However, management monitors the related foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Credit risk

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 31st May, 2007 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet. The Group's credit risk is primarily attributable to its trade and other receivables and promissory notes. In order to minimise credit risk, management has delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, management reviews the recoverable amount of each individual debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, management considers that the Group's credit risk is significantly reduced.

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

Cash flow interest rate risk

The Group's cash flow interest rate risk primarily relates to variable-rate bank borrowings (see Notes 30 and 31). It is the Group's policy to convert a proportion of its variable-rate debt to fixed-rate debt. In the current year, the Group has been using interest rate swaps in order to mitigate its exposure associated with fluctuations relating to interest cash flows. The critical terms of these interest rate swaps are similar to those of hedged borrowings.

6. TURNOVER AND SEGMENT INFORMATION

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

(a) Primary reporting format – business segments

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

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

- Timepieces – design, assembly, manufacturing, distribution and trading of timepieces and timepiece components

- Jewellery – design, assembly, manufacturing, distribution and trading of jewellery products

- Leather & lifestyle – design, assembly, manufacturing, distribution and trading of leather & lifestyle products

- Investments – investments in strategic investments, available-for-sale financial assets and investments held for trading. Strategic investments include investments in unlisted securities and closed-end funds which could bring medium or long-term synergetic benefits to the Group's businesses such as strategic alliance and partnership with various distribution business in Asia for furtherance of its business penetration in the region.

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

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

	Year ended 31st May, 2007 Timepiece products $'000	Jewellery products $'000	Leather & lifestyle products $'000	Investments $'000	Eliminations $'000	Group $'000
Turnover	2,504,942	1,274,870	3,245,647	–	–	7,025,459
Inter-segment revenue	26,585	10,710	11,364	–	(48,659)	–
Dividend income	–	–	–	1,774	–	1,774
Segment results	(1,028,046)	(242,954)	(119,670)	(203,899)	–	(1,594,569)
Finance costs						(308,533)
Loss before share of profit of associated companies						(1,903,102)
Share of profit of associated companies						82,730
Loss before taxation						(1,820,372)
Taxation						(119,821)
Loss for the year						(1,940,193)
Attributable to:						
Equity holders of the Company						(1,959,408)
Minority interests						19,215
						(1,940,193)
Segment assets	1,722,136	913,239	1,767,402	186,807	–	4,589,584
Interests in associated companies	199,920	31	180	–	–	200,131
Total assets						4,789,715
Segment liabilities	(2,870,819)	(875,988)	(715,949)	–	–	(4,462,756)
Total liabilities						(4,462,756)
Capital expenditure	33,729	28,474	116,703	–	–	178,906
Depreciation	22,080	13,216	57,606	–	–	92,902
Amortisation of intangible assets	10,497	1,961	5,528	–	–	17,986
Amortisation of leasehold land	561	132	–	–	–	693
Impairment loss on accounts receivable, other receivables and promissory notes	1,031,799	326,078	207,171	–	–	1,565,048
Impairment loss on intangible assets	130,346	14,990	70,000	–	–	215,336
Impairment loss on available-for-sale financial assets	–	–	–	206,446	–	206,446
Allowance for inventory	106,035	28,867	90,519	–	–	225,421

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

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

	Year ended 31st May, 2006					
	Timepiece products $'000	Jewellery products $'000	Leather & lifestyle products $'000	Investments $'000	Eliminations $'000	Group $'000
Turnover	2,071,754	1,086,684	2,817,012	–	–	5,975,450
Inter-segment revenue	22,533	6,384	5,516	–	(34,433)	–
Dividend income	–	–	–	2,168	–	2,168
Segment results	163,225	110,862	200,341	(2,362)	–	472,066
Finance costs						(137,284)
Profit before share of profit of associated companies						334,782
Share of profit of associated companies						10,363
Profit before taxation						345,145
Taxation						(5,923)
Profit for the year						339,222
Attributable to:						
Equity holders of the Company						304,957
Minority interests						34,265
						339,222
Segment assets	2,258,624	1,510,436	2,349,702	296,710	–	6,415,472
Interests in associated companies	161,102	(66)	425	–	–	161,461
Total assets						6,576,933
Segment liabilities	(2,525,071)	(845,982)	(995,306)	–	–	(4,366,359)
Total liabilities						(4,366,359)
Capital expenditure	156,613	15,151	120,789	–	–	292,553
Depreciation	18,142	9,824	45,746	–	–	73,712
Amortisation of intangible assets	11,679	2,010	5,067	–	–	18,756
Amortisation of leasehold land	547	129	–	–	–	676
Impairment loss on accounts and other receivables	9,290	2,263	811	–	–	12,364
Impairment loss on available-for-sale financial assets	–	–	–	3	–	3
Allowance for inventory	15,958	2,502	7,506	–	–	25,966

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

(b) **Secondary reporting format – geographical segments**

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

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

		Year ended 31st May, 2007		**At 31st May, 2007**
	Turnover $'000	**Segment results $'000**	**Capital expenditure $'000**	**Total assets $'000**
Europe	**4,568,405**	**(43,691)**	**129,430**	**2,631,045**
America	**413,211**	**(121,475)**	**350**	**55,701**
Asia Pacific	**2,043,843**	**(1,429,403)**	**49,126**	**1,902,838**
	7,025,459	**(1,594,569)**	**178,906**	**4,589,584**
Interests in associated companies				**200,131**
Total assets				**4,789,715**

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

7. OTHER REVENUES

	2007 $'000	2006 $'000
Dividend income	**1,774**	2,168
Exchange gain, net	**33,865**	1,664
Gain on derivative financial instruments, net		
– forward foreign exchange contracts	**13,471**	—
– forward gold and silver contracts	**3,433**	7,191
– silver option	**—**	2,608
– currency option	**—**	9,954
Gain on disposal of available-for-sale financial assets – listed securities	**774**	—
Gain on disposal of intangible assets	**3,174**	15,692
Interest income	**83,880**	54,457
Redemption premium received on maturity of equity-linked notes	**—**	3,220
Rental income, net of outgoings	**6,264**	4,701
Others	**1,757**	8,611
	148,392	110,266

8. IMPAIRMENT LOSSES ON ASSETS

	2007 $'000	2006 $'000
Impairment loss on intangible assets *(Note 19)*	**215,336**	—
Impairment loss on available-for-sale financial assets *(Note 23(a) and 23 (b))*	**206,446**	3
Impairment loss on accounts receivable	**562,902**	11,892
Impairment loss on other receivables	**265,755**	472
Impairment loss on promissory notes	**736,391**	—
	1,986,830	12,367

Impairment loss on accounts receivable comprised allowance for bad and doubtful debts of $548,646,000 (2006: $nil) and bad debts of $14,256,000 (2006: $11,892,000) written off.

9. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after crediting and charging the following:

	2007 **$'000**	2006 $'000
Crediting:		
Dividend income	**1,774**	2,168
Effect of changes in exchange rate	**33,865**	1,664
Gain on derivative financial instruments		
– forward foreign exchange contracts	**13,471**	—
– forward gold/silver contracts	**3,433**	7,191
– silver options	**—**	2,608
– currency options	**—**	9,954
Gain on disposal of available-for-sale financial assets – listed securities	**774**	—
Gain on disposal of intangible assets	**3,174**	15,692
Interest income from		
– bank deposits	**14,862**	7,976
– promissory notes	**58,316**	41,599
– equity-linked notes	**—**	1,059
– others	**10,702**	3,824
Redemption premium received on maturity of equity-linked notes	**—**	3,220
Rental income, net of outgoings	**6,264**	4,701
Charging:		
Amortisation of intangible assets *(Note 19)*	**17,986**	18,756
Amortisation of leasehold land	**693**	676
Auditors' remuneration		
– current year	**8,793**	9,102
– prior year under-provision	**179**	238
Depreciation on		
– owned fixed assets	**88,966**	72,784
– leased fixed assets	**3,936**	929
Allowance for inventories	**225,421**	25,966
Loss on derivative financial instruments		
– forward foreign exchange contracts	**—**	11,549
– silver options	**2,533**	—
– currency options	**51,314**	—
Loss on disposal of available-for-sale financial assets		
– listed securities, net	**—**	30
– unlisted securities, net	**—**	4,498
Loss on disposal of fixed assets	**1,435**	2,788
Loss on disposal of investments held for trading	**1**	—
Loss on fair value on investments held for trading	**—**	10
Operating leases		
– land and buildings	**379,543**	287,746
– hire of furniture and equipment	**22,726**	23,963
Staff costs (including Directors' emoluments) *(Note 15)*	**1,134,420**	1,056,874
Share of tax of associated companies	**34,214**	335

10. FINANCE COSTS

	2007 $'000	2006 $'000
Interest on bank borrowings		
– wholly repayable within five years	**144,828**	108,956
– not wholly repayable within five years	**—**	206
Interest on other loans and notes payable		
– wholly repayable within five years	**14,108**	10,199
– not wholly repayable within five years	**—**	13
Interest element of finance leases	**1,605**	250
Interest on convertible bonds	**—**	93
Interest on advances from associated companies	**87**	588
Bank charges	**26,886**	26,069
Net fair value loss/(gain) on financial instruments	**121,019**	(9,090)
	308,533	137,284

11. TAXATION

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

	2007 $'000	2006 $'000
The Company and its subsidiaries		
Current taxation:		
Hong Kong profits tax		
– Provision for the year	**1,889**	3,567
– Under-provision in prior years	**—**	149
Overseas taxation		
– Provision for the year	**16,225**	15,744
– Under-provision in prior years	**22,977**	2,921
Deferred taxation *(Note 20)*		
– Recognised during the year	**78,730**	(16,458)
	119,821	5,923

Hong Kong profits tax has been provided at 17.5% (2006: 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.

11. TAXATION *(Cont'd)*

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

	2007 **$'000**	2006 $'000
(Loss)/profit before taxation	**(1,820,372)**	345,145
Tax at the domestic profits tax rate of 17.5% (2006: 17.5%)	**(318,565)**	60,398
Tax effect of income not subject to taxation	**(113,229)**	(59,679)
Tax effect of expenses that are not deductible in determining taxable profit	**318,876**	10,206
Tax effect of utilisation of tax losses not previously recognised	**(669)**	(5,674)
Tax effect of tax losses not recognised	**177,474**	(11,401)
Tax effect of other temporary differences not recognised	**(769)**	(1,059)
Under-provision in prior years	**22,977**	3,070
Effect of different tax rates of subsidiaries operating in other jurisdictions	**35,191**	10,062
Unutilised loss recognised	**(1,465)**	—
Tax expense for the year	**119,821**	5,923

12. (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated (loss)/profit attributable to equity holders of the Company included a loss of approximately $1,969,925,000 of the Company (2006: profit of $102,055,000).

13. DIVIDENDS

	2007 **$'000**	2006 $'000
Interim, paid, of 3.00 cents (2006: 2.80 cents) per ordinary share	**43,802**	36,003
Final, proposed, of nil cent (2006: 5.00 cents) per ordinary share	**–**	64,291
	43,802	100,294

During the year, an interim dividend of approximately $43,802,000 (2006: $36,003,000) was declared and paid on 15th February, 2007 and 30th March, 2007 respectively.

The board of Directors has resolved not to recommend any final dividend for the year ended 31st May, 2007.

14. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The basic (loss)/earnings per share was calculated based on the consolidated loss attributable to equity holders of the Company for the year of approximately $1,959,408,000 (2006: profit of $304,957,000) and the weighted average number of ordinary shares of approximately 1,385,170,000 (2006: 1,278,628,000) in issue during the year.

(b) Diluted (loss)/earnings per share

No diluted loss per share is presented for the year ended 31st May, 2007 as the exercise of the Company's outstanding share options for the year ended 31st May, 2007 would result in a decrease in loss per share.

(c) Reconciliation

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

	2007 **$'000**	2006 $'000
(Loss)/profit attributable to equity holders of the Company used in calculating basic (loss)/earnings per share	**(1,959,408)**	304,957
Interest savings in respect of convertible bonds	**—**	38
(Loss)/profit attributable to equity holders of the Company used in calculating diluted (loss)/earnings per share	**(1,959,408)**	304,995

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

	2007	2006
Weighted average number of ordinary shares used in calculating basic (loss)/earnings per share	**1,385,170,000**	1,278,628,000
Dilutive potential effect in respect of		
– convertible bonds	**—**	5,696,000
– share options of the Company	**N/A**	1,146,000
Weighted average number of ordinary shares used in calculating diluted (loss)/earnings per share	**N/A**	1,285,470,000

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

	2007 $'000	2006 $'000
Wages and salaries	**1,118,716**	1,044,503
Pension costs		
– Defined benefits plans *(Note 32 (b))*	**12,970**	8,994
– Defined contribution plan *(Note 32 (a))*	**3,690**	3,817
Less: Refund of forfeited contributions *(Note 32 (a))*	**(956)**	(440)
	1,134,420	1,056,874

16. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

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

2007

	Fees $'000	Basic salaries, housing allowances, other allowances and benefits in kind $'000	Contributions to pension schemes $'000	Bonuses* $'000	Other emoluments $'000	Total $'000
Executive Directors						
Hans-Joerg Seeberger	–	5,706	615	200	–	6,521
Peter Ka Yue Lee	–	1,973	105	–	–	2,078
Michael Richard Poix	–	2,535	–	240	–	2,775
Ho Yin Chik	–	1,208	82	300	–	1,590
David Wai Kwong Wong	–	1,920	12	–	–	1,932
Wolfgang Heinz Pfeifer	–	1,655	–	–	–	1,655
	–	14,997	814	740	–	16,551
Independent Non-Executive Directors						
Dr. Goetz Reiner Westermeyer	100	–	–	–	333	433
Professor Udo Glittenberg	100	–	–	–	–	100
Andy Yick Man Ng	100	–	–	–	150	250
	300	–	–	–	483	783
Total	300	14,997	814	740	483	17,334

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

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

2006

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

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

* The Directors were entitled to a discretionary bonus.

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

(b) Five highest paid individuals

(i) The five individuals whose emoluments were the highest in the Group for the year included two (2006: three) Directors whose emoluments were set out in the analysis presented above. The emoluments payable to the remaining three (2006: two) individuals during the year were analysed below:

	2007 **$'000**	2006 $'000
Basic salaries, housing allowances, other allowances and benefits in kind	**5,409**	3,459
Bonuses	**894**	1,040
Post-retirement benefits	**1,464**	—
Compensation for loss of office	**—**	57
	7,767	4,556

(ii) The emoluments of the aforementioned three (2006: two) non-director employees fell within the following bands:

	Number of individuals **2007**	2006
$1,500,001-$2,000,000	**—**	1
$2,000,001-$2,500,000	**1**	—
$2,500,001-$3,000,000	**2**	1
	3	2

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

17. FIXED ASSETS

Group

	Freehold land and buildings $'000	Leasehold buildings $'000	Leasehold improvements $'000	Furniture and equipment $'000	Motor vehicles $'000	Total $'000
Cost						
At 1st June, 2005, as previously reported	97,669	39,500	132,033	493,512	6,967	769,681
Effect of adopting HKAS 17 "Leases" ("HKAS 17")	—	(29,842)	—	—	—	(29,842)
At 1st June, 2005, as restated	97,669	9,658	132,033	493,512	6,967	739,839
Additions	62	—	68,773	76,169	2,943	147,947
Acquisition of subsidiaries	—	—	555	1,924	11	2,490
Reclassification	—	—	(2,025)	2,025	—	—
Disposals	—	—	(5,889)	(102,484)	(2,630)	(111,003)
Exchange adjustments	2,378	—	9,040	12,914	90	24,422
At 31st May, 2006	100,109	9,658	202,487	484,060	7,381	803,695
Additions	103	—	79,783	69,742	2,231	151,859
Reclassification	—	—	8,904	(8,904)	—	—
Disposals	(17,318)	—	(23,863)	(88,179)	(1,869)	(131,229)
Exchange adjustments	8,765	—	21,410	47,437	347	77,959
At 31st May, 2007	**91,659**	**9,658**	**288,721**	**504,156**	**8,090**	**902,284**
Accumulated depreciation and impairment losses						
At 1st June, 2005, as previously reported	35,277	—	26,377	334,218	5,189	401,061
Effect of adopting HKAS 17	—	2,156	—	—	—	2,156
At 1st June, 2005, as restated	35,277	2,156	26,377	334,218	5,189	403,217
Charge for the year	3,154	231	22,057	47,274	996	73,712
Reclassification	—	—	(689)	689	—	—
Disposals	—	—	(4,548)	(97,881)	(2,057)	(104,486)
Exchange adjustments	1,354	—	3,744	9,450	55	14,603
At 31st May, 2006	39,785	2,387	46,941	293,750	4,183	387,046
Charge for the year	2,868	237	32,764	55,534	1,499	92,902
Reclassification	—	—	8,483	(8,483)	—	—
Disposals	(5,943)	—	(6,868)	(84,343)	(1,190)	(98,344)
Exchange adjustments	4,769	—	10,921	37,457	228	53,375
At 31st May, 2007	**41,479**	**2,624**	**92,241**	**293,915**	**4,720**	**434,979**
Net book value						
At 31st May, 2007	**50,180**	**7,034**	**196,480**	**210,241**	**3,370**	**467,305**
At 31st May, 2006	60,324	7,271	155,546	190,310	3,198	416,649

17. FIXED ASSETS *(Cont'd)*

Notes:

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

	2007 **$'000**	2006 $'000
In Hong Kong, held on:		
Leases of between 10 to 50 years	**7,034**	7,271
Outside Hong Kong, held on:		
Freehold	**50,180**	60,324
	57,214	67,595

(b) The net book value of furniture and equipment and motor vehicles held under finance leases at 31st May, 2007 amounted to approximately $29,199,000 (2006: $9,396,000) and $723,000 (2006: $1,012,000) respectively.

(c) At 31st May, 2007, certain freehold land and buildings with an aggregate net book value of approximately $37,439,000 (2006: $52,050,000) were pledged as security for banking facilities granted to certain subsidiaries of the Group in Europe *(Note 37(b))*.

18. LEASEHOLD LAND

Group

	Total $'000
Cost	
At 1st June, 2005, as previously reported	—
Effect of adopting HKAS 17	28,259
At 1st June, 2005, as restated, at 31st May, 2006 and 31st May, 2007	**28,259**
Accumulated amortisation	
At 1st June, 2005, as previously reported	—
Effect of adopting HKAS 17	6,676
At 1st June, 2005, as restated	6,676
Charge for the year	676
At 31st May, 2006	7,352
Charge for the year	693
At 31st May, 2007	**8,045**
Net book value	
At 31st May, 2007	**20,214**
At 31st May, 2006	20,907

At 31st May, 2006 and 31st May, 2007 all interests in leasehold land were held in Hong Kong with remaining lease period between 10 to 50 years.

19. INTANGIBLE ASSETS

Group

	Licences and trademarks $'000	Development costs $'000	Know-how $'000	Leasehold rights $'000	Goodwill $'000	Total $'000
Cost						
At 1st June, 2005, as previously reported	595,040	48,635	28,963	80,539	212,678	965,855
Effect of adopting HKAS 27 "Consolidated and Separate Financial Statements"	–	–	–	–	(87,457)	(87,457)
At 1st June, 2005, as restated	595,040	48,635	28,963	80,539	125,221	878,398
Additions	13,629	112	–	8,101	–	21,842
Acquisition of a subsidiary	250	–	–	–	120,024	120,274
Disposals	(3,877)	(270)	–	(6,292)	–	(10,439)
Exchange adjustments	3,562	(398)	170	1,551	9,868	14,753
At 31st May, 2006	608,604	48,079	29,133	83,899	255,113	1,024,828
Additions	17,791	1,256	–	8,000	–	27,047
Disposals	(3,388)	(1,032)	–	(2,075)	–	(6,495)
Exchange adjustments	13,338	1,712	506	6,085	11,558	33,199
At 31st May, 2007	**636,345**	**50,015**	**29,639**	**95,909**	**266,671**	**1,078,579**
Accumulated amortization and impairment losses						
At 1st June, 2005	123,387	40,256	11,789	323	–	175,755
Charge for the year	10,315	4,345	1,881	2,215	–	18,756
Disposals	(3,241)	(250)	–	(367)	–	(3,858)
Exchange adjustments	1,013	(316)	51	86	–	834
At 31st May, 2006	131,474	44,035	13,721	2,257	–	191,487
Charge for the year	11,068	2,571	1,925	2,422	–	17,986
Impairment losses (c)	81,513	–	3,476	–	130,347	215,336
Disposals	(607)	(1,032)	–	(2,075)	–	(3,714)
Exchange adjustments	3,868	1,751	161	178	–	5,958
At 31st May, 2007	**227,316**	**47,325**	**19,283**	**2,782**	**130,347**	**427,053**
Net book value						
At 31st May, 2007	**409,029**	**2,690**	**10,356**	**93,127**	**136,324**	**651,526**
At 31st May, 2006	477,130	4,044	15,412	81,642	255,113	833,341

19. INTANGIBLE ASSETS *(Cont'd)*

Notes:

(a) The net book value of a software system amounting to approximately $6,655,000 (2006: $1,489,000) included under intangible assets was held under finance leases at 31st May, 2007.

(b) At 31st May, 2007, certain leasehold rights with an aggregate net book value of approximately $18,036,000 (2006: $16,875,000) were pledged as security for banking facilities granted to a subsidiary of the Group. *(Note 37(b))*

(c) In accordance with HKAS 36 "Impairment of assets", the Group completed its annual impairment test for trademarks and goodwill by comparing their recoverable amounts to their carrying amounts as at 31st May, 2007.

For trademarks, the Group appointed LCH (Asia-Pacific) Surveyors Limited, independent professional valuer, to conduct valuations of the trademarks based on value-in-use calculation. The valuations use cash flow projections based on financial estimates covering a twelve-month period, expected royalty rates deriving from the trademarks in the range of 7% to 10% and a discount rate of 10.6%. The cash flows are extrapolated using a steady long-term growth rate of 5%.

For goodwill, the Group prepares cash flow forecasts derived from the most recent financial budgets and estimates and a discount rate of 8%. The cash flows are extrapolated using the steady long-term growth rate of 5%.

Such growth rate does not exceed the long-term average growth rate for luxury consumer markets in which the Group operates. The Directors have considered the above assumptions and valuations and also taken into account the business development going forward and the strategic distribution expansion worldwide based on past performance and expectations for the market development, and determined that certain trademarks associated with the Group's jewellery and leather and lifestyle segments and goodwill attributed to the acquisition of a subsidiary were impaired by approximately by $81,513,000 and $130,347,000 respectively.

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

20. DEFERRED TAX ASSETS/(LIABILITIES)

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

	Group	
	2007	2006
	$'000	$'000
Beginning of year	**138,291**	120,397
Exchange adjustments	**(13,507)**	1,436
Recognised in the profit and loss account during the year	**(78,730)**	16,458
End of year	**46,054**	138,291

Provided for in respect of:

Group

	Accelerated depreciation allowances $'000	Deferred expense/ (income) $'000	Impairment of assets $'000	Tax losses carried forward $'000	Retirement benefit obligation $'000	Revaluation of properties $'000	Unrealised profit in inventories of subsidiaries $'000	Total $'000
Balance at 1st June, 2005, as previously reported	(7,193)	3,734	3,379	96,111	1,234	(1,855)	23,072	118,482
Effect of adopting HKAS 17	60	–	–	–	–	1,855	–	1,915
Balance at 1st June, 2005, as restated	(7,133)	3,734	3,379	96,111	1,234	–	23,072	120,397
(Charge)/Credit to the profit and loss account for the year	1,154	125	262	16,820	(561)	–	(1,342)	16,458
Exchange adjustments	(10)	135	216	1,098	(3)	–	–	1,436
Balance at 31st May, 2006	(5,989)	3,994	3,857	114,029	670	–	21,730	138,291
(Charge)/Credit to the profit and loss account for the year	(2,050)	31	199	(76,509)	441	–	(842)	(78,730)
Exchange adjustments	(34)	487	295	(14,319)	64	–	–	(13,507)
Balance at 31st May, 2007	**(8,073)**	**4,512**	**4,351**	**23,201**	**1,175**	**–**	**20,888**	**46,054**

No deferred taxation was provided for available-for-sale financial assets 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.

20. 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% (2006:17.5%). Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred tax relates to the same fiscal authority. The following amounts are shown in the consolidated balance sheet:

	Group	
	2007	2006
	$'000	$'000
Deferred tax liabilities	**(8,413)**	(6,502)
Deferred tax assets	**54,467**	144,793
	46,054	138,291

(c) At 31st May, 2007, the Group has unused tax losses of approximately $2,519,347,000 (2006: $1,496,396,000) available for offset against future profits. Deferred tax asset has been recognised in respect of approximately $78,996,000 (2006: $462,400,000) of such losses. No deferred tax asset has been recognised in respect of the remaining $2,440,351,000 (2006: $1,033,996,000) due to the unpredictability of future profit streams. The unrecognised tax losses will expire through 5 years to indefinitely.

21. INTERESTS IN SUBSIDIARIES

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

	2007 **$'000**	2006 $'000
Shares listed in Hong Kong, at cost	**–**	118,691
Unlisted shares, at cost	**453,278**	328,239
Less: Accumulated impairment losses	**(192,201)**	(29,000)
	261,077	417,930
Market value of shares listed in Hong Kong	**–**	264,919

Notes:

(a) Amounts due from/(to) subsidiaries were unsecured and repayable on demand. Except for an amount of approximately $102,832,000 (2006: $127,303,000) due from a subsidiary which bore interest at commercial lending rate, the remaining balances were non-interest bearing. Details of the amounts due from subsidiaries are as follows:-

	Company	
	2007 **$'000**	2006 $'000
Amounts due from subsidiaries	**2,375,722**	1,788,757
Less: Impairment loss on amounts due from subsidiaries	**(1,940,890)**	–
	434,832	1,788,757

(b) At 31st May, 2007, the Company guaranteed the payments and performance by several subsidiaries under certain license agreements pursuant to which the subsidiaries were licensees *(Note 36)*.

(c) At 31st May, 2007, the Company provided corporate guarantees to commercial banks and other institutions of approximately $6,577,497,000 (2006: $5,107,262,000) to secure banking and other facilities of certain subsidiaries *(Notes 36 and 37(a))*.

(d) The underlying value of interests in subsidiaries was, in the opinion of the Directors, not less than the carrying value at 31st May, 2007.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

The following is a list of the significant subsidiaries at 31st May, 2007:

	Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued capital/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
#	Abel & Zimmermann GmbH & Co KG	Germany	EUR511,292	–	100	Manufacturing and distribution of jewellery
	Bartelli (Holdings) Limited	British Virgin Islands	US$1	–	100	Licensing of leather trademark
	Bartelli Leather Products Limited	Hong Kong	$10,000	–	100	Manufacturing and distribution of leather products
# @	Bartelli Leather Products (Shenzhen) Co. Ltd.	The People's Republic of China ("PRC")	US$500,000	–	100	Manufacturing of leather products
# @	Calibre Jewellery (Shenzhen) Co. Ltd.	The PRC	US$600,000	–	100	Manufacturing of jewellery
	Centreline Group Limited	British Virgin Islands	US$1	–	100	Investment holding and licensing of trademarks
#	Chromachron A.G.	Switzerland	CHF300,000	–	100	Inactive
#	DK Digital GmbH	Germany	EUR111,100	–	84.84	Distribution of electronics consumer products

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

	Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued capital/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
	Eco-Haru (Far East) Limited	Hong Kong	$500,000	–	100	Distribution of timepieces, jewellery and leather and lifestyle products
	Eco-Haru Mfr. Holdings Limited	British Virgin Islands	US$1	100	–	Investment holding
	Eco-Haru Property Investments Limited	Hong Kong	$2	–	100	Property holding
	Eco Swiss China Time Limited	Hong Kong	$26,000,000	100	–	Inactive
	Egana.Com Inc.	British Virgin Islands	US$100	–	100	Investment holding
#	Egana Deutschland GmbH	Germany	EUR5,113,430	–	100	Distribution of watches
	Egana Far East Procurement Services (Holdings) Limited	Cayman Islands	$15,000,000	100	–	Procurement
	Egana Finance Limited	Hong Kong	$2	100	–	Group treasury

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

	Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued capital/ registered capital held by the Company Directly	Indirectly	Principal activities
				%	%	
#	EganaGoldpfeil Accessoires GmbH (previously known as "Goldpfeil GmbH")	Germany	EUR3,600,000	–	100	Design, manufacturing and distribution of luxury leather goods
#	EganaGoldpfeil Benelux Jewel B.V.	The Netherlands	EUR18,000	–	100	Distribution of jewellery
#	EganaGoldpfeil Benelux Time B.V.	The Netherlands	EUR18,000	–	100	Distribution of watches
#	EganaGoldpfeil Europe (Holdings) GmbH	Germany	EUR2,600,000	100	–	Investment holding
#	EganaGoldpfeil Italia s.r.l.	Italy	EUR25,823	–	100	Distribution of watches
#@	EganaGoldpfeil (Shenzhen) Trading Company Limited	The PRC	US$330,000	–	100	Import, export and distribution of timepieces, jewellery, leather products, fashions and accessories and optical products
#	EganaGoldpfeil (Switzerland) Limited	Switzerland	CHF1,000,000	–	100	Distribution of watches and jewellery
	Egana-Haru Mfr. Corp. Limited	Hong Kong	$2	–	100	Design, assembly, distribution and licensee of watches
#	Egana India Private Limited	India	US$500,000	–	90	Distribution of watches and jewellery
	Egana Investments (Pacific) Limited	Cook Islands	US$1	–	100	Investment holding and licensing operation

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

	Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued capital/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
*	Egana Jewellery & Pearls Limited ("EJPL")	Cayman Islands/ Hong Kong	$123,060,572	72.73	27.27	Investment holding
	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	Provision of marketing and consultancy services
	Egana of Switzerland (America) Corp.	The United States of America	US$16,517,458	100	–	Distribution of watches
	Egana of Switzerland (Far East) Limited	Hong Kong	$11,500,000	–	100	Design, assembly and distribution of watches
#	Egana Uhrenvertriebs GmbH	Austria	EUR36,000	–	100	Distribution of watches
#	Eurochron GmbH	Germany	EUR2,556,459	–	100	Design, manufacturing and distribution of clocks

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

	Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued capital/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
#	European Technology & Logistic Center GmbH	Germany	EUR500,000	–	100	Technology and logistic center
	Everstone Limited	Hong Kong/ The PRC	$100	–	100	Subcontracting and manufacturing of jewellery
	Funasia Investments Limited	British Virgin Islands	US$14,000,001	–	100	Investment holding
	Glorious Concept Limited	British Virgin Islands	US$10	–	100	Investment holding
	Goldpfeil Distribution and Services Limited	Hong Kong	$500,000	–	100	Distribution and retailing of leather products
#	Goldpfeil Genève S.A.	Switzerland	CHF100,000	–	100	Distribution of watches
#	Guthmann + Wittenauer Schmuck GmbH	Germany	EUR1,500,000	–	100	Manufacturing and distribution of jewellery
#	Haru Holding & Management GmbH	Germany	EUR2,300,850	–	100	Investment holding
#	Haru Japan Corporation, Inc.	Japan	JP¥30,000,000	–	100	Distribution of timepieces, jewellery, and sourcing agent for pearls

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

	Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued capital/ registered capital held by the Company Directly	Indirectly	Principal activities
				%	%	
	Jacquelin Designs Enterprises, Inc.	The United States of America	–	–	100	Design and distribution of jewellery
	Junghans Asia Limited	Hong Kong	$1,000	–	100	Distribution of watches
	Junghans Asia (Holdings) Limited	British Virgin Islands	US$100	–	100	Investment holding
	Junghans Group Limited	British Virgin Islands	US$1	–	100	Investment holding
#	Junghans Uhren GmbH	Germany	EUR5,112,919	–	100	Manufacturing and distribution of watches
	Kai-Yin Lo Limited	Hong Kong	$2,600,000	–	100	Design, manufacturing and retailing of jewellery
#	Keimothai Limited	Thailand	Baht81,000,000	–	100	Sourcing, manufacturing and distribution of jewellery
#	Lorica Sud s.r.l.	Italy	EUR900,800	–	70	Manufacturing and distribution of man-made leather goods
	Oro Design Limited	Hong Kong	$10,000	–	100	Design, manufacturing, distribution and licensee of jewellery
	P.C. International Marketing Limited	British Virgin Islands/France	US$1	100	–	Licensing of watches and jewellery trademarks/ brandnames
	Pioneer Ventures Limited	Hong Kong	$100	–	100	General trading and quality inspection
#	Porzellan-Manufaktur Ludwigsburg GmbH	Germany	EUR1,000,000	–	87.5	Manufacturing of porcelain

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

	Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued capital/ registered capital held by the Company Directly	Indirectly	Principal activities
				%	%	
#	Rebner GmbH	Germany	EUR25,564	–	100	Investment holding
#	Salamander in Austria GmbH	Austria	EUR4,500,000	–	100	Retailing of shoes
#	Salamander CR spol.s.r.o.	Czech Republic	CZK18,222,000	–	100	Retailing of shoes
#	Salamander France S.A.S.	France and Belgium	EUR4,458,600	–	100	Retailing of shoes
#	Salamander GmbH	Germany	EUR8,000,000	–	100	Retailing of shoes
#	Salamander Hungaria Kft.	Hungary	HUF662,880,000	–	99.849	Retailing of shoes
#	Salamander in Russland GmbH	Russia	RUB85,065,050	–	100	Retailing of shoes
#	Salamander Polska Sp.z.o.o.	Poland	PLN2,808,000	–	100	Retailing of shoes
#	Sioux GmbH	Germany	EUR7,669,000	–	100	Manufacturing and distribution of footwear
	Time Success Industrial Limited	Hong Kong	$2	–	100	Property holding
	Towercham Limited	Island of Nevis, West Indies	STG2	–	100	Provision of marketing and consultancy services
#	Zeitmesstechnik GmbH	Germany	EUR99,702	–	100	Provision of timepiece repair and maintenance services

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

Notes:

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

* Listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") until 23rd October, 2006

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

@ Wholly foreign-owned enterprise incorporated in the PRC

22. INTERESTS IN ASSOCIATED COMPANIES

	Group 2007 $'000	Group 2006 $'000
Share of net assets/(liabilities)		
Company listed in Hong Kong	**105,626**	100,168
Unlisted companies	**11,033**	(2,976)
	116,659	97,192
Goodwill	**83,472**	64,269
	200,131	161,461
The Group's share of the market value of the company listed in Hong Kong	**65,125**	29,744

The underlying value of interests in associated companies was, in the opinion of the Directors, not less than the carrying value at 31st May, 2007.

The following is a list of the principal associated companies at 31st May, 2007:

Name	Place of incorporation/ operation	Particulars of issued shares held	Percentage of interest held Directly %	Percentage of interest held Indirectly %	Principal activities
Amaretta GmbH ("Amaretta")	Germany	EUR1,022,600	–	30.00	Distribution of man-made leather
Dominique Roger Diffusion S.A.R.L. ("Dominique")	France	Ordinary shares of EUR14 each	–	30.00	Distribution and marketing of timepieces and jewellery
JOOP! GmbH ("JOOP!") *(a)*	Germany	3 shares of EUR120,000 each	–	50.00	Retail and trademark licensing
Tonic Industries Holdings Limited ("Tonic") * *(b)*	Cayman Islands/ Hong Kong	Ordinary shares of $0.1 each	–	20.40	Design, manufacturing and trading of consumer electronic products and components and home appliance products

* Listed on the Stock Exchange

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

(a) In April 2007, the Group increased its interest in JOOP! from 33.33% to 50% at a cost of approximately $23,164,000.

(b) The financial statements of Tonic are made up to 31st March each year. For the purpose of applying the equity method of accounting the financial statements of Tonic for the year ended 31st March, 2007 have been used and appropriate adjustments have been made for the effects of significant transactions between that date and 31st May, 2007.

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

	2007	2006
	$'000	$'000
Total assets	**1,643,607**	1,607,180
Total liabilities	**(1,082,074)**	(1,111,116)
Net assets	**561,533**	496,064
Group's share of associated companies' net assets	**116,659**	97,192
Revenue	**2,820,771**	2,623,860
Profit for the year	**190,881**	35,077
Group's share of associated companies' profit for the year	**82,730**	10,363

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		**Company**	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Equity securities:				
Strategic investments (a)	**–**	94,689	**–**	–
Others (b)	**186,684**	201,709	**7,620**	6,657
	186,684	296,398	**7,620**	6,657

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

Notes:

(a) Strategic investments:

	Group	
	2007	2006
	$'000	$'000
Unlisted, at fair value		
– Investment in a third party private company (i and iii)	**–**	23,438
– Private closed-end fund (ii and iii)	**–**	71,251
	–	94,689

(i) At 31st May, 2007, the Group had strategic investment in a private company whose principal activities are investment holding, trading of consumer products, rendering of marketing promotion service, distribution and trading of fashion accessory products.

(ii) At 31st May, 2007, the Group had strategic investment in a private closed-end fund, which provided opportunity for the Group to explore Junghans systems watch program extension in Asia, and to exploit distribution alliance partners for the Group's branded products in the Greater China markets.

(iii) During the year, the Directors reviewed the carrying amounts of the strategic investments. In light of the currently available information and the change of the Group's strategic plans, the Directors considered that the strategic investments have been fully impaired as at 31st May, 2007. Accordingly, an amount of impairment loss of $5,243,000 was debited to available-for-sale financial assets revaluation reserve to reverse the revaluation surplus recognised in previous years, and an amount of impairment loss of $89,446,000 was recognised in the profit and loss account.

(b) Others:

	Group		Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Listed in Hong Kong, at quoted market price (i)	**184,074**	81,966	**7,305**	6,342
Listed other than in Hong Kong, at quoted market price	**2,139**	2,274	**–**	–
Unlisted, at fair value (ii)	**471**	117,469	**315**	315
	186,684	201,709	**7,620**	6,657

(i) Certain equity securities listed in Hong Kong with a total carrying amount of $39,697,000 as at 31st May, 2007 were sold for an aggregated cash consideration, before deducting transaction costs, of approximately $39,256,000 subsequent to 31st May, 2007 and up to 25th October, 2007.

In respect of the remaining equity securities listed in Hong Kong with a total carrying amount of approximately $144,377,000 as at 31st May, 2007, their market value as at 25th October, 2007 was approximately $55,202,000.

(ii) During the year, the Directors reviewed the carrying amounts of the unlisted investments. In light of the currently available information and the change of the Group's strategic plans, an unlisted investment was considered by the Directors to be fully impaired as at 31st May, 2007. Accordingly, impairment loss of $117,000,000 was recognised in the profit and loss account.

24. INVENTORIES

	Group	
	2007	2006
	$'000	$'000
Raw materials	**374,012**	368,623
Work-in-progress	**110,877**	116,794
Finished goods	**1,284,986**	1,003,321
	1,769,875	1,488,738
Less: Impairment for inventories	**(351,076)**	(170,136)
	1,418,799	1,318,602

As at 31st May, 2007 and 2006, no inventory was carried at net realisable value.

At 31st May, 2007, the carrying amount of inventories that was pledged as security for banking facilities granted to certain subsidiaries of the Group amounted to approximately $68,559,000 (2006: $57,821,000) *(Note 37 (b))*.

25. ACCOUNTS RECEIVABLE, NET

In general, the Group grants an average credit period of 30 to 120 days to its trade customers. An aging analysis of accounts receivable at 31st May, 2007 after impairment losses on accounts receivable was as follows:

	Group	
	2007	2006
	$'000	$'000
Current and due within one month	**546,495**	1,360,020
Due between one to two months	**89,158**	41,618
Due between two to three months	**17,828**	12,722
Due between three to four months	**14,983**	10,781
Due over four months	**41,082**	76,521
	709,546	1,501,662

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

26. INVESTMENTS HELD FOR TRADING

	Group	
	2007	2006
	$'000	$'000
Trading securities listed other than in Hong Kong	**123**	312

27. DERIVATIVE FINANCIAL INSTRUMENTS

	Group			
	2007		2006	
	Assets	Liabilities	Assets	Liabilities
	$'000	$'000	$'000	$'000
Forward foreign exchange contracts	1,760	2,925	–	11,549
Currency options	–	78,431	186	27,156
Forward gold and silver contracts	–	1,712	7,818	627
Silver options	75	–	2,608	–
Interest rate swaps	5,429	128,278	5,859	267
	7,264	211,346	16,471	39,599
Analysed as:				
Non-current	3,980	129,398	6,045	2,029
Current	3,284	81,948	10,426	37,570
	7,264	211,346	16,471	39,599

	Company			
	2007		2006	
	Assets	Liabilities	Assets	Liabilities
	$'000	$'000	$'000	$'000
Forward foreign exchange contracts	250	9	–	1,820
Interest rate swaps	1,437	10,261	123	268
	1,687	10,270	123	2,088
Analysed as:				
Non-current	865	10,261	123	899
Current	822	9	–	1,189
	1,687	10,270	123	2,088

27. DERIVATIVE FINANCIAL INSTRUMENTS *(Cont'd)*

(i) During the year, the Group entered into forward foreign exchange and gold contracts in order to hedge against firmly committed commercial transactions. The contracts were arranged with commercial banks and other institutions. In addition, the Group has also bought and sold some currency options. The Group had, at 31st May, 2007, outstanding forward foreign exchange contracts to buy EUR, USD and CNY and sell EUR and USD currencies with a notional principal value of approximately EUR400,000 (2006: EUR6,964,000) and US$161,300,000 (2006: US$21,060,000) and CNY4,000,000 (2006: CNYnil) and EUR14,185,000 (2006: EUR18,820,000) and US$59,600,000 (2006: US$30,500,000) equivalent respectively, outstanding currency option to buy Euro call with a notional principal value of EURnil (2006: EUR15,650,000), outstanding forward gold contracts to purchase gold and silver with a notional principal value of approximately US$16,606,000 (2006: US$17,292,000) equivalent, written silver option to sell silver with a notional principal value of US$1,820,000 (2006: US$3,217,000) and written currency options to sell EUR call with a notional principal value of approximately EUR119,546,000 (2006: EUR76,012,500), written currency options to sell EUR, JPY and CHF put with a notional principal value of approximately EUR7,000,000 (2006: EUR51,910,000) and JPY1,346,000,000 (2006: JPY560,000,000) and CHFnil (2006: CHF1,400,000) equivalent respectively. Such outstanding contracts were scheduled to settle or expire, through April, 2009.

(ii) At 31st May, 2007, the Group had outstanding interest rate swap contracts with a notional amount of approximately $2,929,600,000 (2006: $360,000,000). Such outstanding contracts were scheduled to settle or expire, through March, 2012.

(iii) The derivative financial instruments are measured at fair values at each balance sheet date. Their fair values are based on estimated values provided by financial institutions for equivalent instruments at the balance sheet date.

28. ACCOUNTS PAYABLE, ACCRUALS AND OTHER PAYABLES

	Group		Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Accounts payable	**658,016**	896,020	**–**	–
Accruals and other payables	**454,998**	435,210	**2,026**	9,536
	1,113,014	1,331,230	**2,026**	9,536

At 31st May, 2007, the aging analysis of the accounts payable was as follows:

	Group	
	2007	2006
	$'000	$'000
Current and due within one month	**589,860**	844,144
Due between one to two months	**30,577**	33,398
Due between two to three months	**2,072**	6,199
Due between three to four months	**791**	2,046
Due over four months	**34,716**	10,233
	658,016	896,020

The Directors consider that the carrying amounts of accounts payable approximate their fair values.

29. PROVISIONS

Group

	Warranty (a) $'000	Restructuring (b) $'000	Total $'000
At 1st June, 2005	7,646	–	7,646
Additional provisions	6,869	5,709	12,578
Arising from the acquisition of subsidiaries	6,703	–	6,703
Less: Amounts utilised	(10,232)	(3,040)	(13,272)
Less: Unused amounts reversed	(5,547)	–	(5,547)
Exchange adjustments	295	121	416
At 31st May, 2006 and at 1st June, 2006	**5,734**	**2,790**	**8,524**
Additional provisions	40,173	14,338	54,511
Less: Amounts utilised	(3,443)	(5,233)	(8,676)
Less: Unused amounts reversed	(1,584)	–	(1,584)
Exchange adjustments	1,777	551	2,328
At 31st May, 2007	**42,657**	**12,446**	**55,103**

Notes:

(a) Warranty provision: The Group provided warranties on certain products and undertook to repair or replace items that failed to perform satisfactorily. The provision was recognised during the year for expected warranty claims based on past experience of the level of repairs and returns.

(b) Restructuring provision: The restructuring provision was related to the restructuring plan of certain overseas subsidiaries of the Group.

(c) The Directors consider that the carrying amounts of provisions approximate their fair values.

30. SHORT-TERM BANK BORROWINGS

	Group	
	2007 $'000	2006 $'000
Bank loans and overdrafts	**944,287**	815,501
Trust receipts and import loans	**347,647**	290,015
	1,291,934	1,105,516

The Directors consider that the carrying amounts of short-term bank borrowings approximate their fair values.

31. LONG-TERM LIABILITIES

	Group		Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Long-term bank borrowings (a)	**1,221,646**	1,326,145	**411,240**	424,800
Other loans (b)	**87,591**	39,250	**–**	–
Obligations under finance leases (c)	**42,246**	12,768	**–**	–
	1,351,483	1,378,163	**411,240**	424,800
Current portion of long-term liabilities	**(474,350)**	(204,261)	**(292,680)**	(114,960)
	877,133	1,173,902	**118,560**	309,840

Notes:

(a) Long-term bank borrowings:

	Group		Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Repayable				
– within one year				
– secured	**7,798**	7,553	**–**	–
– unsecured	**375,614**	162,684	**292,680**	114,960
– in the second year				
– secured	**5,297**	6,570	**–**	–
– unsecured	**48,298**	291,121	**57,720**	272,400
– in the third to fifth year				
– secured	**6,114**	9,347	**–**	–
– unsecured	**778,525**	848,623	**60,840**	37,440
– after the fifth year				
– secured	**–**	247	**–**	–
– unsecured	**–**	–	**–**	–
	1,221,646	1,326,145	**411,240**	424,800
Current portion included in current liabilities	**(383,412)**	(170,237)	**(292,680)**	(114,960)
	838,234	1,155,908	**118,560**	309,840

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

Notes: (Cont'd)

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

The carrying amounts of the total bank borrowings were denominated in the following currencies:

	Group		Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Hong Kong dollars	**645,610**	639,650	**249,000**	300,000
US dollars	**416,862**	329,284	**162,240**	124,800
Euro	**1,373,150**	1,350,095	**–**	–
Others	**77,958**	112,632	**–**	–
	2,513,580	2,431,661	**411,240**	424,800

At 31st May, 2007, long-term bank borrowings not wholly repayable within five years of $nil (2006: $15,316,000) were repayable by instalments.

(b) Other loans comprised notes payable and other loans:

	Group	
	2007	2006
	$'000	$'000
Repayable		
– within one year	**77,730**	29,538
– in the second year	**3,123**	2,951
– in the third to fifth year	**3,222**	3,243
– after the fifth year	**3,516**	3,518
	87,591	39,250
Current portion included in current liabilities	**(77,730)**	(29,538)
	9,861	9,712

At 31st May, 2007, other loans not wholly repayable within five years of approximately $4,115,000 (2006: $4,131,000) were repayable by instalments.

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

Notes: (Cont'd)

(c) Obligations under finance leases:

	Group 2007 $'000	Group 2006 $'000
Lease payments payable		
– within one year	**14,741**	5,122
– in the second year	**13,832**	4,644
– in the third to fifth year	**16,643**	4,127
– after the fifth year	**1,162**	–
	46,378	13,893
Future finance charges on finance leases	**(4,132)**	(1,125)
Present value of finance lease liabilities	**42,246**	12,768

The present value of finance lease liabilities was as follows:

	Group 2007 $'000	Group 2006 $'000
Repayable		
– within one year	**13,208**	4,486
– in the second year	**12,832**	4,276
– in the third to fifth year	**15,337**	4,006
– after the fifth year	**869**	–
Present value of finance lease liabilities	**42,246**	12,768
Current portion included in current liabilities	**(13,208)**	(4,486)
	29,038	8,282

(d) The Directors consider that the carrying amounts of the long-term bank borrowings, other loans and obligations under finance leases approximate their fair values.

32. PENSIONS AND OTHER POST RETIREMENT OBLIGATIONS

	Group	
	2007	2006
	$'000	$'000
Obligations on:		
-pensions-defined contribution plan (a)	**–**	–
-pensions-defined benefits plans (b)	**241,639**	226,470
	241,639	226,470

Notes:

(a) Pensions-defined contribution plan
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 are subject to a maximum of $1,000 per employee per month and thereafter contributions are voluntary. During the year ended 31st May, 2007, the Group's employer's contribution to the scheme was approximately $3,690,000 (2006: $3,817,000). The assets of the scheme are held separately from those of the Group and are managed by independent professional fund managers.

Forfeited contributions totalling $956,000 (2006: $440,000) were utilised during the year.

(b) Pensions-defined benefits plans
Employees of certain overseas subsidiaries are members of defined benefits plans maintained by the Group. There is no requirement for these employees to make periodic contributions to these plans. At 31st May, 2007, the plans were still unfunded and comprised no plan assets. The latest actuarial valuations of the Group's defined benefits plans were completed at 31st May, 2007 by qualified actuaries, Aon Jauch & Hübner, Dr. Dr. Heissmann GmbH, Allianz Lebensversicherungs-AG, IDUNA Vereinigte Lebensversicherung aG and Kern Mauch & Kollegen GmbH, using the projected unit credit method. The main actuarial assumptions were as follows:

Discount rate	5%-6%
Expected rate of future salary increases	1.5%-2.5%
Expected future pension increases	1.5%

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

Notes: (Cont'd)

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

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

	Group	
	2007	2006
	$'000	$'000
Present value of unfunded obligations	**244,871**	227,371
Unrecognised net actuarial gains and losses	**(3,232)**	(901)
Liability in the balance sheet	**241,639**	226,470

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

	2007	2006
	$'000	$'000
Current service cost	**1,880**	3,819
Interest cost	**11,370**	9,061
Net actuarial gains recognised	**(204)**	(2,028)
Amount in relation to plan curtailments or settlements	**(76)**	(1,858)
Total included in staff costs *(Note 15)*	**12,970**	8,994

All the charges were included in administrative expenses.

Movements in the present value of defined benefits obligations recognised in the balance sheet were as follows:

	2007	2006
	$'000	$'000
Beginning of year	**227,371**	228,925
Exchange adjustments	**15,718**	3,996
Current service cost	**1,880**	3,819
Interest cost	**11,370**	9,061
Actuarial losses	**4,893**	516
Amount in relation to plan curtailments or settlements	**(76)**	(1,858)
Benefits paid	**(16,285)**	(17,088)
Present value of unfunded obligations	**244,871**	227,371
Unrecognised net actuarial gains and losses	**(3,232)**	(901)
End of year	**241,639**	226,470
Current portion included in current liabilities	**(16,938)**	(15,470)
	224,701	211,000

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

Notes: (Cont'd)

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

The history of experience adjustments is as follows:-

	2007	2006	2005
	$'000	$'000	$'000
Present value of defined benefits obligations	**244,871**	227,371	228,925
Fair value of plan assets	**–**	–	–
Deficit	**244,871**	227,371	228,925
Experience adjustments on plan liabilities	**4,893**	516	(213)

The Group expects to make a contribution of approximately $16,296,000 (2006: $14,796,000) to the defined benefits plans during the next financial year.

33. SHARE CAPITAL

Share capital comprised:

	2007	2006	**2007**	2006
	Number of ordinary shares		**$'000**	$'000
Authorised:	**2,000,000,000**	2,000,000,000	**2,000,000**	2,000,000
Issued and fully paid:				
Ordinary shares:				
Beginning of year	**1,285,810,051**	1,271,286,051	**1,285,810**	1,271,286
Issued upon conversion of convertible bonds	**–**	14,524,000	**–**	14,524
Issued upon exercise of share options (a)	**30,860,400**	–	**30,860**	–
Issued under scrip dividend scheme (b)	**11,265,432**	–	**11,265**	–
Issued in relation to privatisation of a subsidiary (c)	**136,065,641**	–	**136,066**	–
End of year	**1,464,001,524**	1,285,810,051	**1,464,001**	1,285,810

Notes:

(a) Options were exercised by a Director and employees during the year which resulted in 30,860,400 new shares of the Company being issued at weighted average exercise price amounting to $2.14, totalling approximately $66,140,000. The difference between the par value of shares issued and the proceeds from the exercise of the options totalling approximately $35,280,000, was recognised as share premium. The weighted average share price at date of exercise for share option exercised during the year was $4.10.

(b) During the year, the Company issued a total of 11,265,432 new ordinary shares of $1 each under scrip dividend scheme with a share price of $3.714.

(c) During the year, the Company issued a total of 136,065,641 new ordinary shares of $1 each in relation to the privatisation of a subsidiary at a share price of $3.77.

33. SHARE CAPITAL *(Cont'd)*

Share options

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

Notes:

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

	Number of share options	
	2007	2006
	'000	'000
Beginning of year	**44,819**	44,979
Share options exercised	**(30,860)**	–
Lapsed on expiry	**(84)**	(160)
End of year	**13,875**	44,819

(b) At 31st May, 2007, details of outstanding share options were as follows:

Date granted	Expiry date	2007 Exercise price $	2007 No. of options	2007 No. of options vested	2006 Exercise price $	2006 No. of options	2006 No. of options vested
Directors							
23/03/1997	23/03/2007	**3.45**	**–**	**–**	3.45	144,800	–
09/01/2000	09/01/2010	**2.11**	**12,500,000**	**–**	2.11	12,500,000	–
17/01/2000	17/01/2010	**2.11**	**500,000**	**–**	2.11	500,000	–
			13,000,000	**–**		13,144,800	–
Employees under continuous contracts (excluding Directors)							
28/01/1997	28/01/2007	**1.28**	**–**	**–**	1.28	99,000	–
15/03/1997 to 27/09/1997	15/03/2007 to 27/09/2007	**3.45**	**50,000**	**–**	3.45	815,400	–
07/01/2000 to 25/02/2000	07/01/2010 to 25/02/2010	**2.11**	**825,000**	**–**	2.11	30,760,000	–
			875,000	**–**		31,674,400	–
			13,875,000	**–**		44,819,200	–

34. RESERVES

Group

Movements of reserves for the Group for the year ended 31st May, 2007 were as follows:

	Attributable to equity holders of the Company										
	Share premium account $'000	Exchange translation reserve $'000	Retained profits/ (Accumulated losses) $'000	Available-for-sale financial assets revaluation reserve $'000	Capital Redemption reserve $'000	Goodwill $'000	Legal reserve $'000	Other reserves $'000	Total $'000	Minority interests $'000	Total $'000
Beginning of year	372,153	(195,314)	839,131	(16,240)	40,801	(454,108)	270	580	587,273	337,491	924,764
Premium arising from exercise of share options	35,280	–	–	–	–	–	–	–	35,280	–	35,280
Premium arising from issue of shares in relation to privatisation of a subsidiary	376,902	–	–	–	–	–	–	–	376,902	–	376,902
Premium arising from issue of shares under scrip dividend scheme	30,577	–	–	–	–	–	–	–	30,577	–	30,577
Expenses incurred for issue of shares	(64)	–	–	–	–	–	–	–	(64)	–	(64)
Deemed acquisition of additional interests in a subsidiary	–	–	(150,240)	–	–	–	–	–	(150,240)	(371,718)	(521,958)
Acquisition of additional interests in subsidiaries	–	–	(803)	–	–	–	–	–	(803)	(42)	(845)
Share of exchange translation reserve of an associated company	–	2,503	–	–	–	–	–	–	2,503	–	2,503
Revaluation of listed available-for-sale financial assets	–	–	–	96,978	–	–	–	–	96,978	–	96,978
Disposal of listed available-for-sale financial assets	–	–	–	(592)	–	–	–	–	(592)	–	(592)
Impairment loss on unlisted available-for-sale financial assets	–	–	–	(5,243)	–	–	–	–	(5,243)	–	(5,243)
Minority share of revaluation surplus of listed available-for-sale financial assets	–	–	–	(19,902)	–	–	–	–	(19,902)	19,902	–
Loss for the year ended 31st May, 2007	–	–	(1,959,408)	–	–	–	–	–	(1,959,408)	19,215	(1,940,193)
Final dividend paid	–	–	(71,524)	–	–	–	–	–	(71,524)	–	(71,524)
Interim dividend paid	–	–	(43,802)	–	–	–	–	–	(43,802)	–	(43,802)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	(339)	(339)
Exchange difference arising from translation of overseas subsidiaries' and associated companies' financial statements	–	(20,676)	–	–	–	–	–	–	(20,676)	1,190	(19,486)
End of year	814,848	(213,487)	(1,386,646)	55,001	40,801	(454,108)	270	580	(1,142,741)	5,699	(1,137,042)

Representing:	
2007 Final dividend proposed	–
Others	(1,386,646)
Accumulated losses, end of year	(1,386,646)

34. RESERVES *(Cont'd)*

Group

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

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

	Retained profits $'000
Representing:	
2006 Final dividend proposed	64,291
Others	774,840
Retained profits, end of year	839,131

34. RESERVES *(Cont'd)*

Company

	Year ended 31st May, 2007					
	Share premium account $'000	Retained profits/ (Accumulated losses) $'000	Available-for-sale financial assets revaluation reserve $'000	Capital redemption reserve $'000	Other reserve $'000	Total $'000
Beginning of year	372,153	69,115	(1,647)	40,801	457	480,879
Premium arising from exercise of share options	35,280	–	–	–	–	35,280
Premium arising from issue of shares in relation to privatisation of a subsidiary	376,902	–	–	–	–	376,902
Premium arising from issue of shares under scrip dividend scheme	30,577	–	–	–	–	30,577
Expenses incurred in connection with issue of shares	(64)	–	–	–	–	(64)
Revaluation of listed available-for-sale financial assets	–	–	963	–	–	963
Loss for the year	–	(1,969,925)	–	–	–	(1,969,925)
Dividend paid	–	(115,326)	–	–	–	(115,326)
End of year	814,848	(2,016,136)	(684)	40,801	457	(1,160,714)
Representing:						
2007 Final dividend proposed		–				
Other		(2,016,136)				
Accumulated losses, end of year		(2,016,136)				

34. RESERVES *(Cont'd)*

Company *(Cont'd)*

Year ended 31st May, 2006

	Share premium account $'000	Convertible bonds equity portion $'000	Retained profits $'000	Revaluation reserve $'000	Available-for-sale financial assets revaluation reserve $'000	Capital redemption reserve $'000	Other reserve $'000	Total $'000
Beginning of year, as previously reported	363,311	13,035	47,741	(2,263)	–	40,801	457	463,082
Effect of adopting HKAS 39	–	–	–	2,263	(2,263)	–	–	–
Beginning of year, as restated	363,311	13,035	47,741	–	(2,263)	40,801	457	463,082
Premium arising from conversion of convertible bonds	8,862	(13,035)	–	–	–	–	–	(4,173)
Expenses incurred in connection with issue of shares	(20)	–	–	–	–	–	–	(20)
Revaluation of listed available-for-sale financial assets	–	–	–	–	280	–	–	280
Disposal of unlisted available-for-sale financial assets	–	–	–	–	336	–	–	336
Profit for the year	–	–	102,055	–	–	–	–	102,055
Dividend paid	–	–	(80,681)	–	–	–	–	(80,681)
End of year	372,153	–	69,115	–	(1,647)	40,801	457	480,879

	Retained profits $'000
Representing:	
2006 Final dividend proposed	64,291
Other	4,824
Retained profits, end of year	69,115

35. CONSOLIDATED CASH FLOW STATEMENT

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

	2007 **$'000**	2006 $'000
(Loss)/profit before share of profit of associated companies	**(1,903,102)**	334,782
Depreciation of fixed assets	**92,902**	73,712
Loss on disposal of fixed assets	**1,435**	2,788
Gain on disposal of intangible assets	**(3,174)**	(15,693)
Amortisation of intangible assets	**17,986**	18,756
Amortisation of leasehold land	**693**	676
(Gain)/loss on disposal of listed available-for-sale financial assets	**(774)**	30
Loss on disposal of investments held for trading	**1**	–
Loss on disposal of unlisted available-for-sale financial assets	**–**	4,498
Impairment loss on available-for-sale financial assets	**206,446**	3
Impairment loss on intangible assets	**215,336**	–
Fair value losses on investment held for trading	**–**	10
Loss/(gain) on derivative financial instruments, net	**36,943**	(8,205)
Loss/(gain) on interest rate swaps	**121,019**	(9,090)
Dividend income	**(1,774)**	(2,168)
Redemption premium received on maturity of equity-linked notes	**–**	(3,220)
Interest income	**(83,880)**	(54,457)
Interest expense	**160,628**	120,305
Allowance for inventory	**225,421**	25,966
Impairment loss on accounts receivable, other receivables and promissory notes	**1,565,048**	12,364
Operating profit before working capital changes	**651,154**	501,057
Increase in inventories	**(243,827)**	(124,375)
Decrease/(Increase) in accounts receivable	**244,643**	(1,016,110)
Increase in deposits, prepayments and other receivables	**(114,501)**	(41,775)
Increase in due from associated companies	**(3,582)**	(8,406)
(Decrease)/Increase in accounts payable, accruals and other payables	**(249,382)**	455,035
Increase/(Decrease) in provisions	**44,250**	(6,609)
(Decrease)/Increase in bills payable	**(81,668)**	82,985
Increase/(Decrease) in provision for pensions and other post retirement obligations	**257**	(8,094)
(Decrease)/Increase in due to associated companies	**(4,376)**	1,427
Increase/(Decrease) in due to a Director	**1**	(439)
Decrease/(Increase) in derivative financial instruments assets	**26,116**	(16,463)
(Decrease)/Increase in derivative financial instruments liabilities	**(7,598)**	39,587
Exchange adjustments	**(29,006)**	(7,488)
Net cash inflow/(outflow) generated from operations	**232,481**	(149,668)

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

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

	Year ended 31st May, 2007								
	Share capital (including share premium) $'000	Short-term bank borrowings $'000	Dividend payable $'000	Long-term bank borrowings $'000	Other loans $'000	Loan from a minority shareholder $'000	Finance leases obligations $'000	2007 Total $'000	2006 Total $'000
Beginning of year	1,657,963	1,105,516	–	1,326,145	39,250	1,349	12,768	**4,142,991**	3,359,265
(Repayment of)/proceeds from borrowings, net	–	143,502	–	(156,015)	47,923	–	(11,068)	**24,342**	715,019
Conversion of convertible bonds	–	–	–	–	–	–	–	**–**	(25,965)
Payment of expenses incurred for issue of shares	(64)	–	–	–	–	–	–	**(64)**	(20)
Proceeds from issuance of convertible bonds	–	–	–	–	–	–	–	**–**	39,000
Scrip shares	41,842	–	(41,842)	–	–	–	–	**–**	–
Issue of shares upon exercise of share options	66,140	–	–	–	–	–	–	**66,140**	–
Issue of shares for privatisation of a subsidiary	512,968	–	–	–	–	–	–	**512,968**	–
Dividends paid	–	–	(73,484)	–	–	–	–	**(73,484)**	(80,681)
Scrip dividends	–	–	41,842	–	–	–	–	**41,842**	–
Dividend declared	–	–	73,484	–	–	–	–	**73,484**	80,681
Inception of finance leases	–	–	–	–	–	–	39,004	**39,004**	13,860
Exchange adjustments	–	42,916	–	51,516	418	93	1,542	**96,485**	41,832
End of year	2,278,849	1,291,934	–	1,221,646	87,591	1,442	42,246	**4,923,708**	4,142,991

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

(c) Acquisition of subsidiaries:

In December 2005, the Group acquired 84.84% equity interest in DK Digital GmbH ("DK").

Details of net liabilities assumed and goodwill on acquisition are as follows:

	2007 $'000	2006 $'000
Purchase consideration:		
Cash consideration	–	6,840
Direct expenses relating to the acquisitions	–	69
Other receivable	–	29,500
Interest in available-for-sale financial assets	–	23,603
Total purchase consideration	–	60,012
Less: fair value of net liabilities assumed	–	(60,012)
Goodwill on acquisition	–	120,024

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

	2007 $'000	2006 $'000
Net liabilities assumed:		
Fixed assets	–	2,490
Intangible assets	–	250
Inventories	–	30,720
Accounts receivable	–	38,363
Deposits, prepayments and other receivables	–	30,528
Cash and bank balances	–	4,265
Accounts payable, accruals and other payables	–	(159,678)
Provisions	–	(6,703)
Tax payable	–	(247)
Share of net liabilities at date of acquisition	–	(60,012)
Goodwill on acquisition of subsidiaries	–	120,024
Consideration	–	60,012
Satisfied by:		
Cash consideration	–	6,840
Paid	–	2,280
Payable	–	4,560
	–	6,840

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

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

Analysis of net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

	2007 $'000	2006 $'000
Cash consideration paid	**–**	(2,280)
Direct expenses relating to the acquisitions	**–**	(70)
Cash and bank balances acquired	**–**	4,265
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**–**	1,915

(d) Privatisation of a subsidiary:

On 11th September, 2006, the independent shareholders of EJPL approved the proposal from the Company for the privatisation of EJPL. Further to the approval by the Court on 20th October, 2006, EJPL was delisted with effect on 24th October, 2007 and, as a result, EJPL has become a wholly owned subsidiary of the Company.

Expenses incurred for privatisation of the subsidiary are as follows:

	2007 $'000	2006 $'000
Direct costs incurred	**8,392**	–
Cash paid out under cash alternative for redemption of shares	**599**	–
	8,991	–

Premium on deemed acquisition of additional interests in EJPL:

	2007 $'000	2006 $'000
Issue of shares for privatisation	**512,967**	–
Expenses incurred for privatisation	**8,991**	–
Total costs	**521,958**	–
Less: Minority interests	**(371,718)**	–
Premium *(Note 34)*	**150,240**	–

(e) Analysis of cash and cash equivalents:

Group

	2007 $'000	2006 $'000
Cash and bank balances (i)	**428,835**	398,957
Promissory notes with maturity within three months (ii)	**277,950**	986,294
	706,785	1,385,251

(i) Cash at banks earn interest at floating rates based on daily bank deposit rates.

(ii) Promissory notes with maturity within three months represented receivables from certain independent third parties which were unsecured and bore interest at commercial rates. The above promissory notes receivable as at 31st May, 2007 were all settled in the period from June to August 2007.

(iii) The Directors consider that the carrying amounts of the cash and bank balances and promissory notes approximate their fair values.

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

(f) Non-Cash transactions

During the year ended 31st May, 2007, the Group acquired certain fixed and intangible assets amounted to approximately $28,107,000 under finance leases.

36. CONTINGENT LIABILITIES

At 31st May, 2007, contingent liabilities not provided for by the Group and the Company were summarised below:

	Group		**Company**	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Guarantees given to financial and other institutions in respect of facilities granted to subsidiaries *(Note 21(c))*	**–**	–	**6,577,497**	5,107,262
Guarantee given to a financial institution in respect of facilities granted to an associated company	**10,560**	9,880	**10,560**	9,880
Guarantees given to landlords in respect of rental obligations of subsidiaries	**15,325**	1,044	**–**	–
Guarantees given to customs in respect of default in customs obligations of subsidiaries	**618**	297	**–**	–

In addition, the Company guaranteed the payments and performance by several subsidiaries under certain license agreements pursuant to which the subsidiaries were licensees *(Note 21(b))*.

In the opinion of the Directors, the fair values of the financial guarantee contracts of the Group and the Company are insignificant at initial recognition.

37. BANKING FACILITIES

(a) At 31st May, 2007, the Group's banking facilities for bank borrowings and trade financing were secured by unconditional and continuing corporate guarantee provided by the Company and cross guarantees among its subsidiaries *(Note 21(c))*.

(b) At 31st May, 2007, certain land and buildings *(Note 17(c))*, leasehold rights *(Note 19(b))* and inventories *(Note 24)* were pledged as security for banking facilities granted to certain overseas subsidiaries of the Group.

38. COMMITMENTS

(a) Commitments under operating leases

At 31st May, 2007, the Group had future aggregated minimum lease payments under non-cancellable operating leases payable as follows:

	2007		2006	
	Leasehold land and buildings $'000	**Furniture and equipment $'000**	Leasehold land and buildings $'000	Furniture and equipment $'000
Payable:				
– Not later than one year	**290,831**	**19,068**	272,562	18,465
– Later than one year and not later than five years	**745,236**	**19,348**	742,034	16,600
– Later than five years	**562,868**	**1,617**	620,881	–
	1,598,935	**40,033**	1,635,477	35,065

(b) Commitments under license agreements

At 31st May, 2007, the Group had future aggregated minimum royalty payments under licence agreements payable as follows:

	2007 $'000	2006 $'000
Payable:		
– Not later than one year	**51,319**	55,891
– Later than one year and not later than five years	**92,861**	166,459
– Later than five years	**–**	170,277
	144,180	392,627

(c) Purchase commitments

A subsidiary of the Group entered into purchase agreements with certain third party companies and agreed to purchase certain electronics products from these third party companies during the year up to 2007. At 31st May, 2007, total outstanding commitment amounted to approximately $919,000 (2006: $nil).

Certain other subsidiaries of the Group entered into purchase agreements with third party companies and agreed to purchase footwear products from these third party companies during the year up to 2007. At 31st May, 2007, total outstanding commitment amounted to approximately $515,878,000 (2006: $426,759,000).

Save as disclosed above, neither the Group nor the Company had any significant commitments at 31st May, 2007.

39. RELATED PARTY AND CONNECTED TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or entities.

(a) Related party transactions

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

	2007 **$'000**	2006 $'000
Sales of goods		
Amaretta	**289**	–
Dominique	**23,493**	22,201
Mont Blanc Simplo AG	**74,519**	–
Tonic	**49**	–
	98,350	22,201
Purchase of goods		
Amaretta	**84**	78
Tonic	**–**	26,024
Kuraray Co. Limited and/or its subsidiaries ("Kuraray")	**30,420**	26,839
	30,504	52,941
Interest expenses		
Amaretta	**79**	121
Tonic	**–**	460
Rossolini Limited ("Rossolini")	**8**	7
	87	588
Management fee income		
Amaretta	**1,759**	1,629
Rossolini	**5**	5
	1,764	1,634
Rental income		
Amaretta	**1,647**	1,748
Rental expense		
JOOP!	**468**	–

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

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

(i) *(Cont'd)*

	2007 $'000	2006 $'000
Advertising contribution		
Dominique	**74**	52
JOOP!	**3,513**	–
	3,587	52
Royalties expenses		
JOOP!	**13,650**	13,023
Amounts due from		
Dominique	**22,918**	19,908
JOOP!	**11,513**	–
	34,431	19,908
Amounts due to		
Amaretta	**1,515**	2,751
Tonic	**844**	2,902
JOOP!	**–**	699
Rossolini	**116**	97
	2,475	6,449

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

	2007 $'000	2006 $'000
Salaries and other short-term employees benefits	**26,621**	21,853
Termination benefits	**61**	126
Post-employment benefits	**2,278**	1,260
	28,960	23,239

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

(b) Connected transactions

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

	2007 **$'000**	2006 $'000
Lorica Sud s.r.l:		
Purchases from Kuraray[(1)]	**30,420**	26,839

(1) Purchases were transacted based on the terms stated in the Supply Agreement dated 30th March, 2000, while prices were pre-determined as per the price list dated 12th January, 2001 and as amended on 24th February, 2003. The supply agreement was further renewed on 1st January, 2007 for an initial term of two years.

(c) At 31st May, 2007, the amount due to a Director was unsecured, non-interest bearing and repayable within one year.

(d) At 31st May, 2007, loan from a minority shareholder was unsecured, bore interest at commercial lending rates and repayable within one year.

40. POST-BALANCE SHEET EVENTS

In addition to those disclosed in other notes to the accounts, the Group had the following significant post-balance sheet events:

(a) On 15th June, 2007, the Company entered into a 3-year loan agreement with a syndicate of banks for a term loan facility of $1 billion ("$1 billion Loan Facility"). The proceeds of the $1 billion Loan Facility were applied for refinancing existing bank loans of approximately $300 million and for general working capital requirements.

(b) On 7th August, 2007, the Company appointed KPMG to conduct an independent review of the Group's financial position which encompassed a review of the Group's receivables. In light of the findings by KPMG, the Directors believe that the recoverability of certain receivables totalling approximately $1,010 million, which arose from transactions in June and July 2007, is sufficiently uncertain as to make it likely that a full provision of approximately $1,010 million will need to be made in the Group's accounts for the next financial year ending 31st May, 2008.

(c) In August 2007, a leasehold property situated in Hong Kong with a net book value of approximately $1,314,000 as at 31st May, 2007 was disposed of to a third party for gross cash consideration, before deducting transaction costs, of approximately $2,730,000.

(d) In August 2007, the Directors decided to divest certain Hong Kong listed equity securities, with a view to focusing the Group's resources on its core businesses and improving the Group's liquidity position. Accordingly, the Group's entire interest in Tonic was disposed of for a gross cash consideration, before deducting any transaction costs, of approximately $32,849,000 in September 2007. The carrying amount of the Group's interests in Tonic was approximately $105,626,000 as at 31st May, 2007. Moreover, certain Hong Kong listed equity securities, which were included in the available-for-sale financial assets, with a carrying amount of approximately $39,697,000 as at 31st May, 2007 were sold for an aggregate gross cash consideration, before deducting transaction costs, of approximately $39,256,000 subsequent to 31st May, 2007 and up to 25th October, 2007.

40. POST-BALANCE SHEET EVENTS *(Cont'd)*

(e) On 21st September, 2007, Lifestyle, a company listed on the Stock Exchange, submitted a non-binding term sheet to the Company and PIL, a controlling shareholder of the Company, concerning the proposed acquisition by Lifestyle of approximately 29.67% of the shares in the Company held by PIL through PIL's wholly-owned subsidiary, Joint Asset International Limited (the "Joint Asset Shares") and the proposed subscription by Lifestyle of convertible bonds to be issued by the Company in consideration of approximately $880 million. Details of the proposed acquisition of Joint Asset Shares and the proposed subscription for convertible bonds were set out in the Company's public announcement dated 2nd October, 2007.

(f) On 23rd September, 2007, the Company entered into an agreement with a wholly-owned subsidiary of Lifestyle for a loan of $300 million (the "Bridging Loan"). The Bridging Loan, which was drawn down in full on 24th September, 2007, has a term of four months from 24th September, 2007 and is secured by the following:

(i) a charge over the equity interest in P.C. International Marketing Limited ("PCIM"), a wholly owned subsidiary of the Company holding and operating the brand "Pierre Cardin", and a debenture over the assets of PCIM;

(ii) a charge over the Group's leasehold properties situated in Hong Kong with a net book value of $25,934,000 as at 31st May, 2007;

(iii) charges over the bank accounts in which the Bridging Loan funds are held; and

(iv) a charge over the Joint Asset Shares.

41. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

42. APPROVAL OF THE ACCOUNTS

The accounts were approved by the Board of Directors on 26th October, 2007.

FINANCIAL SUMMARY

(Amounts expressed in Hong Kong dollars unless otherwise stated)

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as restated from the audited accounts was set out below.

Results

	Year ended 31st May, 2003 (Restated) $'000	Year ended 31st May, 2004 (Restated) $'000	Year ended 31st May, 2005 (Restated) $'000	Year ended 31st May, 2006 $'000	**Year ended 31st May, 2007 $'000**
Turnover	2,577,917	3,513,434	3,716,706	5,975,450	**7,025,459**
Cost of sales	(1,567,640)	(2,167,686)	(2,188,621)	(3,641,406)	**(4,452,086)**
Gross profit	1,010,277	1,345,748	1,528,085	2,334,044	**2,573,373**
Other revenues	174,174	111,495	146,810	110,266	**148,392**
Distribution costs	(527,957)	(664,934)	(799,160)	(1,308,469)	**(1,543,601)**
Administrative expenses	(451,014)	(541,276)	(524,523)	(651,408)	**(785,903)**
Impairment losses on assets	(7,892)	(19,056)	(11,455)	(12,367)	**(1,986,830)**
Operating profit/ (loss)	197,588	231,977	339,757	472,066	**(1,594,569)**
Finance costs	(83,254)	(91,842)	(93,507)	(137,284)	**(308,533)**
Profit/ (loss) before share of profit of associated companies	114,334	140,135	246,250	334,782	**(1,903,102)**
Share of profit of associated companies	9,913	6,310	9,251	10,363	**82,730**
Profit/ (loss) before taxation	124,247	146,445	255,501	345,145	**(1,820,372)**
Taxation	(18,373)	14,387	3,036	(5,923)	**(119,821)**
Profit/ (loss) for the year	105,874	160,832	258,537	339,222	**(1,940,193)**
Attributable to:					
Equity holders of the Company	88,034	145,235	232,265	304,957	**(1,959,408)**
Minority interests	17,840	15,597	26,272	34,265	**19,215**
	105,874	160,832	258,537	339,222	**(1,940,193)**
Earnings/(loss) per share					
Basic	7.81 cents	12.64 cents	19.31 cents	23.85 cents	**(141.46) cents**
Diluted	7.73 cents	11.75 cents	18.06 cents	23.73 cents	**N/A**

SUMMARY FINANCIAL INFORMATION *(Cont'd)*

Assets and liabilities

	At 31st May, 2003 (Restated) $'000	At 31st May, 2004 (Restated) $'000	At 31st May, 2005 (Restated) $'000	At 31st May, 2006 $'000	**At 31st May, 2007 $'000**
Total assets	3,376,585	4,035,186	4,799,109	6,576,933	**4,789,715**
Total liabilities	(1,947,327)	(2,367,687)	(2,866,433)	(4,366,359)	**(4,462,756)**
Net assets	1,429,258	1,667,499	1,932,676	2,210,574	**326,959**
Equity attributable to equity holders of the Company	1,298,744	1,506,828	1,656,495	1,873,083	**321,260**
Minority interests	130,514	160,671	276,181	337,491	**5,699**
Total equity	1,429,258	1,667,499	1,932,676	2,210,574	**326,959**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(HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)