THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this document or as to the action to be taken, you should consult a licensed securities dealer, or other registered institution in securities, a bank manager, solicitor, professional accountant, or other professional adviser.

If you have sold or transferred all your shares in Egana Jewellery & Pearls Limited, you should at once hand this document and the accompanying forms of proxy and the Election Form to the purchaser or the transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This document appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of EganaGoldpfeil (Holdings) Limited.

EganaGoldpfeil

(HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 48)

EGANA

JEWELLERY & PEARLS LIMITED

(聯洲珠寶有限公司)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 926)

(1) PROPOSAL TO CONSTITUTE EGANA JEWELLERY & PEARLS LIMITED AS A WHOLLY-OWNED SUBSIDIARY OF EGANAGOLDPFEIL (HOLDINGS) LIMITED BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 86 OF THE COMPANIES LAW OF THE CAYMAN ISLANDS

(2) PROPOSED PRIVATISATION AND WITHDRAWAL OF LISTING OF EGANA JEWELLERY & PEARLS LIMITED

Financial adviser to
EganaGoldpfeil (Holdings) Limited

BNP PARIBAS PEREGRINE

Independent financial adviser
to the independent committee of the board of directors of
Egana Jewellery & Pearls Limited

SOMERLEY LIMITED

A letter from the Board is set out on pages 10 to 19. An Explanatory Memorandum regarding the Scheme of Arrangement is set out on pages 64 to 88. A letter from the Independent Board Committee containing its advice to the Independent Shareholders and Optionholders in relation to the Scheme of Arrangement is set out on pages 20 to 21. A letter from Somerley, being the independent financial adviser to the Independent Board Committee, containing its advice to the Independent Board Committee, the Independent Shareholders and the Optionholders in relation to the Proposal and Option Offer, is set out on pages 22 to 63.

The action to be taken by the Scheme Shareholders and the Optionholders is set out on pages 85 to 88.

Notices convening the Court Meeting and the EGM to be held in Hong Kong on 11 September 2006 are set out on pages 283 to 287. Whether or not you are able to attend the Court Meeting and/or the EGM or any adjournment thereof, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them with the Company at its principal place of business in Hong Kong at Block C6, 12th Floor, Hong Kong Industrial Centre, 489-491 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong, together with any power of attorney or other authority (if any) under which it is signed or a certified copy thereof, as soon as possible but in any event not later than the respective times and dates as stated under the paragraph headed "Action to be taken" set out on page 85. The pink form of proxy in respect of the Court Meeting and the white form of proxy in respect of the EGM may also be returned by facsimile at number (852) 2742 2006 (marked for the attention of the "Company Secretary") not later than the respective time and date stated in the paragraph headed "Action to be taken" set out on page 85. If the pink form of proxy for use at the court meeting is not so lodged with the Company at its principal place of business, it may still be handed to the chairman of the Court Meeting at the Court Meeting but the white form of proxy for use at the EGM must be lodged no later than 48 hours before the time of the EGM or adjourned EGM.

18 August 2006

CONTENTS

In this document, the following expressions have the meanings set out below unless the context requires otherwise.

"acting in concert"	has the meaning ascribed thereto in the Takeovers Code
"Applicable Percentage Ratios"	the percentage ratios other than profit ratio (all as defined in Rule 14.04(9) of the Listing Rules) applicable to the transaction contemplated under the Proposal in accordance with Chapter 14 of the Listing Rules
"Announcement"	the announcement dated 10 July 2006 jointly issued by EganaGoldpfeil and the Company in relation to the Proposal and the Option Offer
"Associate(s)"	has the meaning ascribed thereto in the Takeovers Code
"Authorisations"	all necessary authorisations, registrations, filings, rulings, consents, permissions and approvals in connection with the Proposal
"Beneficial Owner"	any beneficial owner of Shares registered in the name of any nominee, trustee, depository or any other authorised custodian or third party
"BNP Paribas Peregrine"	BNP Paribas Peregrine Capital Limited, the financial adviser to EganaGoldpfeil, and a corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
"Board"	board of Directors
"Business Day"	a day (excluding Saturday) on which banks in Hong Kong are generally open for business for more than four hours
"Cancellation Consideration"	the Share Alternative and/or the Cash Alternative
"Captive Insurance Trust"	a discretionary trust whose prospective beneficiaries include Mr. SEEBERGER and his family
"Cash Alternative"	HK$1.80 per Scheme Share in cash under the Scheme of Arrangement
"CCASS"	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
"Common Directors"	persons who hold an office of director at both the Company and EganaGoldpfeil, being Messrs. Hans-Joerg SEEBERGER, Peter Ka Yue LEE, Michael Richard POIX, Ho Yin CHIK and David Wai Kwong WONG
"Companies Law"	Companies Law (2004 Revision) of the Cayman Islands

"Company"	Egana Jewellery & Pearls Limited, a company incorporated in the Cayman Islands with limited liability, the securities of which are listed on the Stock Exchange
"Court"	the Grand Court of the Cayman Islands
"Court Meeting"	a meeting of Scheme Shareholders to be convened at the direction of the Court at which the Scheme of Arrangement will be voted upon. EganaGoldpfeil and the parties acting in concert with it will abstain from voting at this meeting
"Director(s)"	the director(s) of the Company, including non-executive directors and independent non-executive directors
"Effective Date"	23 October 2006, being the date on which the Scheme of Arrangement, if sanctioned by the Court, becomes effective in accordance with the Companies Law
"EganaGoldpfeil"	EganaGoldpfeil (Holdings) Limited, a company incorporated in the Cayman Islands with limited liability and the controlling shareholder of the Company, the securities of which are also listed on the Stock Exchange
"EganaGoldpfeil Board"	the board of directors of EganaGoldpfeil
"EganaGoldpfeil Directors"	the directors of EganaGoldpfeil
"EganaGoldpfeil Group"	EganaGoldpfeil and its subsidiaries including the Group
"EganaGoldpfeil Shares"	Shares of HK$1.00 each in the capital of EganaGoldpfeil
"EganaGoldpfeil Shareholders"	holders of the EganaGoldpfeil Shares
"EGM"	an extraordinary general meeting of the Company to be held immediately following the Court Meeting to consider and vote on the share capital reduction as part of the Scheme of Arrangement at which all Shareholders are eligible to vote
"Election Form"	the blue form of election to be completed by the Shareholders (other than EganaGoldpfeil Group) in respect of election of the Cash Alternative
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
"Explanatory Memorandum"	the Explanatory Memorandum set out on pages 64 to 88 and issued in compliance with the rules of the Court
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong

"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administration Region of The People's Republic of China
"Independent Board Committee"	the independent board committee of the Company, comprising Messrs. Charles Cho Shiu SIN, Eduardo Tang Lung LAU and Professor Zhengfu WANG, all of whom are independent non-executive Directors, which has been established for the purpose of advising the Independent Shareholders and the Optionholders in respect of the Proposal and the Option Offer
"Independent Shareholders"	The Shareholders (other than the EganaGoldpfeil Group and parties acting in concert with EganaGoldpfeil)
"Joint Asset"	Joint Asset International Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of PIL immediately prior to the VDCI SA Investment
"Joint Asset Shareholders Agreement"	The shareholders agreement to be entered into between PIL, Joint Asset and VDCI SA on completion of the VDCI SA Investment, which governs the relationship between PIL and VDCI SA as shareholders of Joint Asset
"Last Trading Date"	6 July 2006, being the last day on which the Shares were traded before the publication of the Announcement
"Latest Practicable Date"	15 August 2006, being the latest practicable date prior to the printing of this document for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Seeberger"	Mr. Hans-Joerg SEEBERGER, an executive director, chairman and chief executive of EganaGoldpfeil
"Offer Period"	the period from the date of the Announcement until the later of (i) the Effective Date; or (ii) the date when the Scheme of Arrangement lapses; or (iii) an announcement is made of the withdrawal of the Scheme of Arrangement
"Option(s)"	Option(s) granted to Optionholders under the Share Option Scheme
"Optionholder(s)"	holder(s) of Options
"Option Offer"	the conditional offer by EganaGoldpfeil to the Optionholders to cancel the outstanding Options on the terms and subject to the conditions contained in this document and the Option Offer Form

"Option Offer Form"	the yellow form setting out the terms and conditions of the Option Offer and to be completed by the Optionholders for acceptance of the Option Offer
"Option Payment"	the payment of HK$1.00 in aggregate by EganaGoldpfeil to each Optionholder as consideration for the cancellation of all the Options held by such Optionholder
"PIL"	Peninsula International Limited, the investment holding company of the Captive Insurance Trust
"Proposal"	the proposed privatisation of the Company by EganaGoldpfeil pursuant to the Scheme of Arrangement
"Record Date"	17 October 2006, being the date on which the entitlements of the Shareholders under the Scheme of Arrangement are determined
"Record Time"	4:00 p.m. (Hong Kong time) on the Record Date
"Registered Owner"	any nominee, trustee, depository or any other authorised custodian or third party who is the registered owner of Shares. A Registered Owner is a Shareholder that has his, her or its name entered on the register of members of the Company
"Relevant Authorities"	appropriate governments and/or governmental bodies, regulatory bodies, courts or institutions including the SFC and the Stock Exchange
"Relevant Period"	the period commencing on the date falling six months prior to the date of the Announcement and ending on the Latest Practicable Date
"Scheme of Arrangement"	the proposed scheme of arrangement between the Company and the Scheme Shareholders pursuant to Section 86 of the Companies Law set out in this document
"Scheme Shareholders"	Shareholders of the Company other than the EganaGoldpfeil Group
"Scheme Shares"	Shares held by the Scheme Shareholders
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	shares of HK$0.50 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)

"Share Alternative"	1 EganaGoldpfeil Share per 1.5 Scheme Share
"Share Option Scheme"	the share option scheme of the Company adopted on 26 June 1998 and effected on 23 July 1998
"Somerley"	Somerley Limited, the independent financial adviser to the Independent Board Committee, a corporation licensed to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Transfer"	the transfer by PIL of 428,576,000 EganaGoldpfeil Shares to Joint Asset
"VDCI SA"	VDCI S.A., a company incorporated in Luxembourg and a wholly owned subsidiary of Compagnie Financière Richemont SA. Compagnie Financière Richemont SA is one of the world's leading luxury goods groups, with particular strength in jewellery, luxury watches and writing instruments
"VDCI SA Investment"	the acquisition by VDCI SA of 30% interest in Joint Asset

	Hong Kong time (unless otherwise stated)
Latest time for lodging transfers of Shares to qualify for attending and voting at the Court Meeting and the EGM	4:00 p.m. on Thursday, 7 September 2006
Book close dates *(Note 1)*	Friday, 8 September 2006 to Monday, 11 September 2006 (both days inclusive)
Latest time for lodging forms of proxy in respect of	
Court Meeting *(Note 2)*	10:00 a.m. on Saturday, 9 September 2006
EGM *(Note 2)*	10:30 a.m. on Saturday, 9 September 2006
Suspension of dealings in the Shares	9:30 a.m. on Monday, 11 September 2006
Court Meeting *(Note 3)*	10:00 a.m. on Monday, 11 September 2006
EGM *(Note 3)*	10:30 a.m. on Monday, 11 September 2006 (or as soon thereafter as the Court Meeting convened for the same day and place shall have been concluded or adjourned)
Press announcement of the results of the Court Meeting and the EGM in Hong Kong Economic Times and The Standard	Tuesday, 12 September 2006
Resumption of dealings in the Shares	9:30 a.m. on Tuesday, 12 September 2006
Board meeting to approve the results of the Group for the year ended 31 May 2006	Thursday, 21 September 2006
Publication of the annual results announcement of the Group	Friday, 22 September 2006
Hearing of the Company's summons for directions in respect of the share capital reduction *(Note 4)*	Tuesday, 26 September 2006
Latest time for dealing in the Shares	4:00 p.m. on Wednesday, 11 October 2006
Suspension of dealing in the Shares pending withdrawal of the listing of the Shares on the Stock Exchange	9:30 a.m. on Thursday, 12 October 2006
Latest time for lodging transfers of Shares to qualify for entitlements under the Scheme of Arrangement	4:00 p.m. on Monday, 16 October 2006

Book close dates *(Note 5)*	Tuesday, 17 October 2006 to Monday, 23 October 2006
Record Time	4:00 p.m. on Tuesday, 17 October 2006
Latest time for lodging the Election Form by Scheme Shareholders who are qualified for entitlements under the Scheme of Arrangement *(Note 6)*	4 :00 p.m. on Thursday, 19 October 2006
Court hearing of the petition to sanction the Scheme of Arrangement and to confirm the share capital reduction *(Note 4 and Note 7)*	Friday, 20 October 2006
Effective Date *(Note 7)*	Monday, 23 October 2006
Withdrawal of the listing of the Shares on the Stock Exchange becomes effective	9:30 a.m. on Tuesday, 24 October 2006
Press announcement of, inter alia, (i) the results of the court hearing of the petition to sanction the Scheme of Arrangement and to confirm the share capital reduction, (ii) the results of the election for the Cash Alternative and the Share Alternative (iii) the Effective Date, (iv) the withdrawal of the listing of the Shares in Hong Kong Economic Times and The Standard	Tuesday, 24 October 2006
Cheques to Scheme Shareholder for cash entitlements and/or share certificates to be despatched on or before *(Note 8)*	Wednesday, 1 November 2006
Latest time for lodging the Option Offer Form by the Optionholders *(Note 9)*	4:00 p.m. on Tuesday, 7 November 2006
Payment for cash entitlements to the Optionholders on or before	Friday, 17 November 2006

Shareholders should note that the above timetable is subject to change. Further announcement(s) will be made in the event that there is any change.

Notes:

1. The register of members of the Company will be closed during such period for the purpose of determining entitlements of the Scheme Shareholders to attend and vote at the Court Meeting and the EGM. This book close period is not for determining entitlements under the Scheme of Arrangement. Any Scheme Shareholders selling or transferring their Scheme Shares after such period will not be qualified for entitlements under the Scheme of Arrangement in respect of those Scheme Shares sold or transferred.

2. Both the pink form of proxy in respect of the Court Meeting and the white form of proxy in respect of the EGM, together with any power of attorney or other authority (if any) under which it is signed or a certified copy thereof, should be lodged with the Company at its principal place of business in Hong Kong at Block C6, 12th Floor, Hong Kong Industrial Centre, 489-491 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong. The pink form of proxy in respect of the Court Meeting and the white form of proxy in respect of the EGM may also be returned by facsimile at number (852) 2742 2006 (marked for the attention of "the Company Secretary"), not later than the respective time and date stated in

the paragraph headed "Action to be taken" set out on page 85. If the pink form of proxy for use at the court meeting is not so lodged with the Company at its principal place of business, it may still be handed to the chairman of the Court Meeting at the Court Meeting but the white form of proxy for use at the EGM must be lodged no later than 48 hours before the time of the EGM or adjourned EGM. Return of a form of proxy for the Court Meeting or the EGM will not preclude a Shareholder from attending the relevant meeting and voting in person. In such event, the returned form of proxy will be deemed to have been revoked.

In the case of any Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner, such Beneficial Owner should contact the Registered Owner and provide him, her or it with instructions or make arrangements in relation to the manner in which the Shares of the beneficial Owner should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the aforementioned latest time for the lodgement of forms of proxy in respect of the Court Meeting and the EGM in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline stated above. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the aforementioned latest time for the lodgement of forms of proxy in respect of the Court Meeting and the EGM, then any such Beneficial Owner should comply with the requirements of the Registered Owner.

Any Beneficial owner whose shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited must, unless such Beneficial Owner is a person admitted to participate in CCASS as an investor participant, contact their broker, custodian, nominee, or other relevant person who is, or has, in turn, deposited such Shares with, a CCASS participant regarding voting instructions to be given to such persons if they wish to vote in respect of the Scheme of Arrangement. The same timeframes for contacting their broker, custodian, nominee or other relevant person as set out in the previous paragraph apply to such Beneficial Owners. The procedure for voting in respect of the Scheme of Arrangement by the investor participants and other CCASS participants with respect to Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the "General Rules of CCASS" and the "CCASS Operational Procedures" in effect from time to time.

3. The Court Meeting and the EGM will be held at Ching Room, 4/F., Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Kowloon, Hong Kong at the times and dates specified above. Please see the notice of the Court Meeting set out on pages 283 and 284 and the notice of the EGM set out on pages 285 to 287 for details.

4. All references in this document to times and dates are references to Hong Kong times and dates, other than references to the expected dates of the Court hearing of the petition to sanction the Scheme of Arrangement and to confirm the share capital reduction and the Court hearing of the Company's summons for directions in respect of the share capital reduction, which are the relevant times and dates in the Cayman Islands. Cayman Islands time is 13 hours behind Hong Kong time.

5. The register of members of the Company will be closed during such period for the purpose of determining Shareholders who are qualified for entitlements under the Scheme of Arrangement. Entitlements under the Scheme of Arrangement will be based on the actual number of Shares held by the Shareholders as at the Record Time i.e. 4:00 p.m. on the Record Date.

6. The Election Form, duly completed in accordance with the instructions thereon, together with the power of attorney or other authority (if any) under which it is signed or a certified copy thereof, must be lodged with the share registrar of the Company, Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong so as to reach them no later than 4:00 p.m. on 19 October 2006 or such later date and time as may be notified through press announcement, failing which the Scheme Shareholders (other than EganaGoldpfeil Group) will receive the Share Alternative in respect of their entire holding of Scheme Shares if the Scheme of Arrangement becomes effective. If you have sold or transferred all of your Shares, you should at once hand this document and the Election Form to the purchaser or the transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee. Copies of the Election Form can also be obtained from the Company's share registrar, Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong at any time before 4:00 p.m. on 19 October 2006.

7. The Scheme of Arrangement shall become effective upon all the conditions set out in the paragraph headed "Conditions of the Scheme of Arrangement" in the Explanatory Memorandum on pages 67 to 68 having been fulfilled or (to the extent permitted) waived (as the case may be). Registration is expected to take place on the Effective Date.

8. A cheque for the amount in respect of cash entitlements or share certificates of EganaGoldpfeil under the Scheme of Arrangement will be despatched by post within 10 days from the Effective Date.

9. Option Offer Forms, duly completed in accordance with the instructions on them, must be lodged with the Company at its principal place of business in Hong Kong at Block C6, 12th Floor, Hong Kong Industrial Centre, 489-491 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong marked "EganaGoldpfeil Option Offer" on the envelope so as to reach them no later than 4:00 p.m. on 7 November 2006 or such later date and time as may be notified through press announcement, failing which the Optionholder will not receive any consideration.

JEWELLERY & PEARLS LIMITED
(聯洲珠寶有限公司)

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 926)

Executive Directors:
Hans-Joerg SEEBERGER
(Chairman and Chief Executive)
Peter Ka Yue LEE
Michael Richard POIX
Ho Yin CHIK
David Wai Kwong WONG
Shunji SAEKI
Michael BOMMERS

Independent Non-executive Directors:
Charles Cho Chiu SIN
Eduardo Tang Lung LAU
Professor Zhengfu WANG
Andy Yick Man NG

Registered office:
P.O. Box 1787, 2nd Floor,
One Capital Place,
George Town
Grand Cayman, Cayman Islands,
British West Indies

Principal place of business in Hong Kong:
Block C6, 12th Floor,
Hong Kong Industrial Centre
489-491 Castle Peak Road,
Cheung Sha Wan
Kowloon,
Hong Kong
Tel: (852) 2741 2008
Fax: (852) 2742 2006
E-mail: ejpl@eganahk.com

18 August 2006

To the Scheme Shareholders and Optionholders

Dear Sir or Madam,

(1) PROPOSAL TO CONSTITUTE EGANA JEWELLERY & PEARLS LIMITED AS A WHOLLY-OWNED SUBSIDIARY OF EGANAGOLDPFEIL (HOLDINGS) LIMITED BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 86 OF THE COMPANIES LAW OF THE CAYMAN ISLANDS

(2) PROPOSED PRIVATISATION AND WITHDRAWAL OF LISTING OF EGANA JEWELLERY & PEARLS LIMITED

INTRODUCTION

It was jointly announced by EganaGoldpfeil and the Company on 10 July 2006 that on 6 July 2006 EganaGoldpfeil had requested the Board to put forward to (i) the Scheme Shareholders a Proposal which, if implemented, would result in the Company becoming a wholly-owned subsidiary of EganaGoldpfeil; and (ii) the Optionholders, the Option Offer to cancel all outstanding Options. The Proposal will be implemented by way of a Scheme of Arrangement under Section 86 of the Companies Law. The Option Offer to the Optionholders will be conditional upon the Scheme of Arrangement becoming effective. The Board has agreed to put forward the Proposal and the Option Offer to the Scheme Shareholders and the Optionholders as it considers the Proposal and the Option Offer to be appropriate for consideration by the Scheme Shareholders and the Optionholders respectively.

EganaGoldpfeil has appointed BNP Paribas Peregrine as its financial adviser in connection with the Proposal and the Option Offer.

The three independent non-executive Directors, Messrs. Charles Cho Chiu SIN, Eduardo Tang Lung LAU and Professor Zhengfu WANG, have been appointed as members of the Independent Board Committee for consideration of and making recommendations to the Independent Shareholders and the Optionholders in respect of the Proposal and the Option Offer, respectively. The Independent Board Committee has approved the appointment of Somerley to advise the Independent Board Committee in connection with the Proposal and the Option Offer.

The purpose of this document is to provide you with further information regarding the Proposal and the Option Offer and to give you notices of the Court Meeting and the EGM (and the forms of proxy, the Election Form and the Option Offer Form in relation thereto). Your attention is also drawn to the letter from the Independent Board Committee set out on pages 20 to 21, the letter from Somerley, being the independent financial adviser to the Independent Board Committee, set out on pages 22 to 63, the Explanatory Memorandum set out on pages 64 to 88 and the Scheme of Arrangement set out on pages 278 to 282.

THE PROPOSAL

Under the Scheme of Arrangement, the Scheme Shareholders will receive from EganaGoldpfeil as Cancellation Consideration for the cancellation of their Scheme Shares:

(1) for every 1.5 Scheme Share held by the Scheme Shareholders .... the Share Alternative (being 1 EganaGoldpfeil Share); or

(2) for every Scheme Share held by the Scheme Shareholders .... the Cash Alternative (being HK$1.80 in cash, but subject to the limit on the total cash available under the Scheme of Arrangement as specified below).

Fractions of EganaGoldpfeil Shares will not be allotted to the Scheme Shareholders who elect the Share Alternative. The number of EganaGoldpfeil Shares to be issued to each Scheme Shareholder will be rounded down to the nearest whole number of EganaGoldpfeil Share.

The Scheme Shareholders may elect the Cash Alternative, the Share Alternative, or a combination of both.

Under the Cash Alternative, each Scheme Shareholder will be able to elect to receive, subject to the limitations set out below, HK$1.80 in cash for each Scheme Share. The aggregate amount of cash payable under the Cash Alternative will not exceed HK$130 million, but each Scheme Shareholder electing for the Cash Alternative will be entitled to receive the Cash Alternative in respect of up to 30% of such Shareholder's holding of Scheme Shares. Elections by Scheme Shareholders for the Cash Alternative in respect of more than 30% of their respective shareholdings will be scaled down as nearly as practicable on a pro rata basis to such excess elections, and the balance of such excess elections shall be deemed to be for the Share Alternative.

Any Scheme Shareholder who does not make a valid election for the Cash Alternative by 4:00 p.m. on 19 October, 2006 or such other date and time as the Company shall notify the Scheme Shareholders will, if the Scheme of Arrangement becomes effective, receive the Share Alternative in respect of its, his or her entire holding of Scheme Shares.

The Share Alternative values each Scheme Share at HK$2.20 on the basis of the closing price of HK$3.30 per EganaGoldpfeil Share on the Last Trading Date.

The aggregate value of the Cancellation Consideration under the Share Alternative is approximately HK$447.2 million (assuming that all Scheme Shareholders elect for the Share Alternative).

On the assumption of maximum election for the Cash Alternative, the aggregate value of the Cancellation Consideration is approximately HK$419.2 million (assuming that the Cancellation Consideration will be first satisfied by the cash portion of HK$130 million and the remaining portion of the Cancellation Consideration will be satisfied by the Share Alternative).

The EganaGoldpfeil Shares to be issued under the Share Alternative will rank pari passu with the existing issued shares in EganaGoldpfeil in all respects (including in relation to all dividends declared or paid after the Effective Date and capital and voting rights attached thereto). **Assuming the Scheme of Arrangement becomes effective, any Scheme Shareholder (i) who has not, by 4:p.m. on 19 October 2006 or such later date and time as may be notified through press announcement, delivered to the share registrar of the Company, Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, a duly completed and executed Election Form; or (ii) who has returned an Election Form which is not duly completed or executed will receive the Share Alternative.**

Dealings of the Shares will be suspended on 12 October 2006 pending withdrawal of the listing of the Shares on the Stock Exchange. Upon implementation of the Scheme of Arrangement, the Company will be a wholly owned subsidiary of EganaGoldpfeil and the listing of the Shares will be withdrawn from the Stock Exchange on 24 October 2006 in compliance with Rule 6.15(2) of the Listing Rules.

Conditions of the Scheme of Arrangement are set out in the subsection headed "Conditions of the Scheme of Arrangement" in the Explanatory Memorandum on pages 67 to 68.

The Proposal will entail, on the Effective Date, the cancellation of all Scheme Shares in issue at the Record Time. As at the Latest Practicable Date, EganaGoldpfeil Group and parties acting in concert with it held 246,121,144 Shares (representing approximately 54.63% of the issued Shares) and the Scheme Shareholders held 204,431,677 Scheme Shares (representing approximately 45.37% of the issued Shares). In addition to the cancellation of 204,431,677 Scheme Shares, any further Shares that may be issued between the Latest Practicable Date and the Record Time will also be cancelled.

EganaGoldpfeil is listed on the Stock Exchange and therefore its shareholders will be afforded the protections currently given to them under the Listing Rules, the constitution of EganaGoldpfeil and the laws of the Cayman Islands.

Comparison of value

The Share Alternative values each Scheme Share at HK$2.20 on the basis of the closing price of HK$3.30 per EganaGoldpfeil Share on the Last Trading Date.

The premium represented by the Cancellation Consideration in the form of Share Alternative under the Proposal, which is calculated by reference to the ratio between the average closing price of the EganaGoldpfeil Shares and the average closing price of the Shares on the Last Trading Date and in various historical periods is as follows:

		As at the Last Trading Date	As at the Latest Practicable Date	Period up to the Last Trading Date			
				10 days	1 month	3 months	6 months
(A)	Average closing price of EganaGoldpfeil Shares (in HK$)	$3.30	$2.97	$3.20	$3.02	$3.02	$2.76
(B)	Average closing price of Shares (in HK$)	$1.58	$1.86	$1.56	$1.46	$1.48	$1.41
(C)	(C) = (A) / (B)	2.089 times	1.597 times	2.051 times	2.068 times	2.041 times	1.957 times
(D)	Premium = (C)/1.5 - 1	39.2%	6.5%	36.7%	37.9%	36.1%	30.5%

The Cash Alternative of HK$1.80 for each Scheme Share under the Proposal represents:

- a premium of approximately 13.9% over the closing price of HK$1.58 per Share as quoted on the Stock Exchange on the Last Trading Date;
- a premium of approximately 15.4% over the average closing price of the Shares of approximately HK$1.56 per Share during the 10 trading days prior to the Last Trading Date;
- a premium of approximately 23.3% over the average closing price of the Shares of approximately HK$1.46 per Share for the one month ended on the Last Trading Date;
- a premium of approximately 21.6% over the average closing price of the Shares of approximately HK$1.48 per Share for the three months ended on the Last Trading Date;
- a premium of approximately 27.7% over the average closing price of the Shares of approximately HK$1.41 per Share for the six months ended on the Last Trading Date;
- a premium of approximately 14.6% over the unaudited consolidated net asset value per Share of approximately HK$1.57 as at 30 November 2005; and

- a discount of approximately 3.2% on the closing price of the Shares of HK$1.86 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

Conditions of the Scheme of Arrangement

The Scheme of Arrangement will become effective and binding on the Company, EganaGoldpfeil and all Shareholders subject to the fulfilment or waiver, as applicable, of the following conditions:

(a) the approval of the Scheme of Arrangement by a majority in number representing 75% in value of the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting provided that the Scheme of Arrangement is approved (by way of poll) by the Independent Shareholders representing not less than three-fourths in value of the Scheme Shares, present and voting at the Court Meeting either in person or by proxy, provided that the number of votes cast against the resolution to approve the Scheme of Arrangement is not more than 10% of the votes attaching to all Scheme Shares held by the Independent Shareholders, save for the Shares held by EganaGoldpfeil and parties acting in concert with it. EganaGoldpfeil and parties acting in concert with it shall, in compliance with the Takeovers Code, abstain from voting at the Court Meeting;

(b) the passing of a special resolution to approve and give effect to the reduction of the issued share capital of the Company by cancelling all of the issued Scheme Shares by a majority of at least three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at the EGM;

(c) the sanction of the Scheme of Arrangement by the Court (with or without modifications) and to the extent necessary, the Court's confirmation of the reduction of the issued share capital of the Company and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Court for registration;

(d) compliance, to the extent necessary, with the procedural requirements of Section 15 of the Companies Law and compliance with any conditions imposed under Section 16 of the Companies Law in each case in relation to the reduction of the issued share capital of the Company;

(e) all Authorisations having been obtained in connection with the Scheme of Arrangement from the Relevant Authorities in the Cayman Islands, Hong Kong, or any other relevant jurisdictions; and

(f) all Authorisations remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authorities which is not expressly provided for, in relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Scheme of Arrangement becomes effective.

In the event that condition (e) and/or condition (f) are not fulfilled, EganaGoldpfeil reserves the right to assess the materiality of such non-fulfillment and to waive the fulfilment of any such condition to such extent as it considers appropriate. Conditions (a) to (d) cannot be waived in any event. All of the above conditions will have to be fulfilled or waived, as applicable, on or before 31 December 2006 (or such other date as EganaGoldpfeil and the Company may agree and the Court may allow), otherwise the Proposal will lapse. The listing of the Shares on the Stock Exchange will not be withdrawn if the Proposal is not approved or lapses.

Assuming that the above conditions are fulfilled (or, as applicable, waived), it is expected that the Scheme of Arrangement will become effective on 23 October 2006 and the listing of the Shares on the Stock Exchange will be withdrawn on 24 October 2006 pursuant to Rule 6.15(2) of the Listing Rules.

An announcement will be made by EganaGoldpfeil and the Company if the Scheme of Arrangement lapses. Further announcements regarding the Proposal will be made as and when appropriate.

The Option Offer

EganaGoldpfeil will make the Option Offer to the Optionholders, conditional upon the Scheme of Arrangement becoming effective, to cancel the Options granted under the Share Option Scheme. The consideration under the Option Offer will be calculated by deducting the exercise price of the Option from the Cash Alternative under the Scheme of Arrangement. As at the Latest Practicable Date, there remained outstanding and exercisable an aggregate of 9,075,000 Options with an exercise price of HK$2.24 per Share granted to the Optionholders under the Share Option Scheme. All such Options are held by employees of the Company. As the exercise price is higher than the Cash Alternative, EganaGoldpfeil will pay the Option Payment as nominal consideration for the cancellation of the Options to each Optionholder, irrespective of the number of Options held by such Optionholder.

In the event that any Options are exercised after the Latest Practicable Date and new Shares are issued pursuant to such exercise prior to the Record Date, such Shares shall constitute Scheme Shares and shall be eligible to participate in the Scheme of Arrangement.

A notice will be sent to all Optionholders, pursuant to the terms of the Share Option Scheme, informing them that if they wish to participate in the Scheme of Arrangement, they can convert any of their outstanding Options held by them by sending a notice to the Company accompanied by a remittance of the full amount of the exercise price and such notice shall be received by the Company no later than 4 business days prior to the Court Meeting. If no such notice is received upon expiry of such period, any unexercised Option shall lapse pursuant to the terms of the Share Option Scheme provided that the Scheme of Arrangement becomes effective.

If the Scheme of Arrangement is not sanctioned by the Court and does not become effective, all unexercised Options will remain unaffected and will be exercisable during their relevant exercisable periods pursuant to the terms of the Share Option Scheme.

After the Scheme of Arrangement becomes effective, EganaGoldpfeil will pay the Option Payment to all Optionholders who have not exercised their Options and returned a duly completed and executed Option Offer form in accordance with the instruction as stated under the paragraph headed "Action to be taken" set out on page 85. **If the Optionholders do not lodge the duly completed and executed Option Offer Form on or before 4:00 p.m. on 7 November 2006 or such later date and time as may be notified to the Optionholders by EganaGoldpfeil, they will not receive the Option Payment.**

Total consideration and confirmation of financial resources

Irrespective of the level of acceptance of the offers for the outstanding Options and the number of Scheme Shares electing for the Cash Alternative by all Scheme Shareholders, the total maximum cash consideration payable under the Proposal is HK$130 million, which will be financed by means of internal resources or bank borrowings of EganaGoldpfeil. EganaGoldpfeil has obtained a HK$130 million banking facility from The Hongkong and Shanghai Banking Corporation Limited. BNP Paribas Peregrine, the financial adviser to EganaGoldpfeil, is satisfied that sufficient financial resources are available to EganaGoldpfeil to implement the Scheme of Arrangement and to satisfy full acceptance of the offer for the Options.

Reasons for the Proposal

The liquidity in the Shares traded on the Stock Exchange has been relatively low compared to that of the EganaGoldpfeil Shares. For the 3-month period from 6 April 2006 up to the Last Trading Date, the average daily trading value (being the daily closing price multiplied by the daily trading volume) for the Shares was only approximately HK$ 1.2 million. The average trading volume of the Shares for the same period was only 800,000 Shares, which represented only approximately 0.4% of the total number of Shares in public hands. In addition, as of the Last Trading Date, the market capitalization of the Company was only HK$711.9 million which in the view of the Board may not be sufficient to retain public interest or interest from professional market researchers or analysts or from high quality institutional investors. The Proposal offers the Scheme Shareholders an opportunity to exchange their investment in EganaGoldpfeil, whose shares are considered to have higher liquidity and investors' coverage as well as growth potential.

In addition, the EganaGoldpfeil Board is of the view that the withdrawal of the listing of the Company will result in a leaner corporate structure of the EganaGoldpfeil Group and will enhance operational efficiency and management accountability.

The Cancellation Consideration (assuming all Shareholders will elect to receive the Share Alternative and none of the outstanding Options shall have been exercised prior to the Court Meeting) will result in approximately 9.6% dilution of the equity interest of the existing shareholders of EganaGoldpfeil and the EganaGoldpfeil Board is of the view that such dilution, in the context of the Proposal, is acceptable.

The Proposal is designed to give public Shareholders a consideration for their Shares which, the EganaGoldpfeil Board believes, is reasonably higher than would be justified by the Company's trading performance. This is borne out by the premium to the prevailing market price of the Shares prior to the Announcement compared with the Cash Alternative being offered to the Shareholders under the Scheme of Arrangement. The Proposal does, however, allow Shareholders who wish to switch their investment to EganaGoldpfeil by choosing the Share Alternative.

In arriving at the Cancellation Consideration, the EganaGoldpfeil Board has had regard to the following considerations:

- The Cancellation Consideration in the form of Share Alternative represents a value of HK$2.20 per Scheme Share on the basis of the closing price of HK$3.30 per EganaGoldpfeil Share on the Stock Exchange on the Last Trading Date, representing a premium of approximately 39.2% over the closing price of HK$1.58 per Share on the same day;

- The respective closing prices of the EganaGoldpfeil Share and the Share were HK$3.30 and HK$1.58 on the Stock Exchange on the Last Trading Date;

- EganaGoldpfeil is a listed company in Hong Kong, with a market capitalization of approximately HK$4,243.2 million, while the market capitalization of the Company amounted to approximately HK$711.9 million; and

- For the 3-month period from 6 April 2006 up to the Last Trading Date, the average daily turnover value of the EganaGoldpfeil Shares and the Shares on the Stock Exchange amounted to approximately HK$9.7 million and approximately HK$1.2 million, respectively.

INFORMATION ON EGANAGOLDPFEIL AND THE COMPANY

Your attention is drawn to the paragraphs headed "Information on the Company" and "Information on EganaGoldpfeil" in the Explanatory Memorandum set out in this document. Your attention is also drawn to the financial information on the Group and the EganaGoldpfeil Group set out in Appendix I and II to this document respectively.

INTENTION OF EGANAGOLDPFEIL WITH REGARD TO THE COMPANY

Your attention is drawn to the paragraph headed "Future intentions of EganaGoldpfeil" in the Explanatory Memorandum.

OVERSEAS SHAREHOLDERS AND OPTIONHOLDERS

Your attention is drawn to the paragraph headed "Overseas Scheme Shareholders and Optionholders" in the Explanatory Memorandum.

COURT MEETING AND EGM

In accordance with the directions of the Court, the Court Meeting will be held on 11 September 2006 for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme of Arrangement (with or without modifications). The Scheme of Arrangement will be subject to the approval of the Scheme Shareholders at the Court Meeting (EganaGoldpfeil and parties acting in concert with it will abstain from voting in any event) in the manner referred to in the paragraph headed "Conditions of the Scheme of Arrangement" in the Explanatory Memorandum. The resolution will be passed if a majority in number of the Scheme Shareholders (other than EganaGoldpfeil and parties acting in concert with it), present in person or by proxy, representing not less than 75% in value of the Scheme Shares being voted vote in favour of the resolution.

In addition, the resolution at the Court Meeting will only be considered to have been passed under Rule 2.10 of the Takeovers Code if the Scheme of Arrangement is approved by Independent Shareholders representing not less than 75% in value of the disinterested Scheme Shares held by the Independent Shareholders present and voting at the Court Meeting either in person or by proxy by poll provided that the number of votes cast against the resolution to approve the Scheme of Arrangement at the Court Meeting is not more than 10% of the votes attaching to all disinterested Scheme Shares held by the Independent Shareholders (namely, the Scheme Shares held by the Shareholders other than EganaGoldpfeil and parties acting in concert with it). As at the Latest Practicable Date, the Independent Shareholders held in aggregate 204,431,677 Scheme Shares. 10% of the votes attached to all disinterested Shares represent 20,443,168 Shares as at the Latest Practicable Date.

The EGM will be held on 11 September 2006 immediately following the Court Meeting, for the purpose of considering and, if thought fit, passing a special resolution to approve the share capital reduction resulting from the cancellation of the Scheme Shares. The special resolution will be passed provided that it is approved by not less than three-fourths of the votes cast by the Shareholders present and voting, in person or by proxy, at the EGM. All Shareholders will be entitled to attend and vote on the special resolution at the EGM. EganaGoldpfeil Group has indicated that if the Scheme of Arrangement is approved at the Court Meeting, they will vote in favour of the special resolution to be proposed at the EGM.

Notice of the Court Meeting is set out on pages 283 to 284. The Court Meeting will be held on 11 September 2006 at the time specified in the notice of the Court Meeting. A pink form of proxy for the Court Meeting is enclosed and this should be completed and returned in accordance with the instructions printed thereon.

Notice of the EGM is set out on pages 285 to 287. The EGM will be held at 10:30 a.m. or as soon thereafter as the Court Meeting convened for the same day and place shall have been concluded or adjourned on 11 September 2006. A white form of proxy for the EGM is enclosed and this should be completed and returned in accordance with the instructions printed thereon.

Pursuant to the articles of association of the Company, a poll may be demanded in relation to any resolution put to the vote of the EGM before or on the declaration of result of the show of hands or on the withdrawal of any other demand for a poll:

(a) by the chairman of the meeting; or

(b) by at least five Shareholders present in person or by proxy and entitled to vote; or

(c) by a Shareholder or Shareholders present in person or in the case of a corporation, by its duly authorised representative or by proxy and representing in aggregate not less than one-tenth of the total voting rights of all Shareholders having the right to attend and vote at the meeting; or

(d) by a Shareholder or Shareholders present in person or by proxy and holding Shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

ACTION TO BE TAKEN

Your attention is drawn to the paragraph headed "Action to be taken" in the Explanatory Memorandum.

RECOMMENDATION

Your attention is drawn to the recommendation of the Independent Board Committee in respect of the Proposal and the Option Offer as set out in the letter from the Independent Board Committee set out on pages 20 to 21.

SHARE CERTIFICATES, DEALINGS, LISTING, REGISTRATION AND PAYMENT

Your attention is drawn to the paragraphs headed "Share certificates, dealings and listing" and "Registration, payment and despatch of share certificates of EganaGoldpfeil" in the Explanatory Memorandum.

TAXATION

Your attention is drawn to the paragraph headed "Taxation" in the Explanatory Memorandum.

It is emphasised that none of EganaGoldpfeil, the Company, BNP Paribas Peregrine nor any of their respective directors or associates or any other person involved in the Scheme of Arrangement accept responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Scheme of Arrangement.

FURTHER INFORMATION

You are urged to read carefully the letters from the Independent Board Committee and from Somerley, the independent financial adviser to the Independent Board Committee, as set out on pages 20 to 21 and pages 22 to 63 respectively, the Explanatory Memorandum as set out on pages 64 to 88, the appendices to this document, the Scheme of Arrangement as set out on pages 278 to 282, the Notice of Court Meeting as set out on pages 283 to 284, the Notice of EGM as set out on pages 285 to 287, the proxy form in respect of the Court Meeting, the proxy form in respect of the EGM, the Election Form and the Option Offer Form all as enclosed with this document.

Yours faithfully,
For and on behalf of the Board
David Wai Kwong WONG
Director

EGANA

JEWELLERY & PEARLS LIMITED

(聯洲珠寶有限公司)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 926)

18 August 2006

To the Independent Shareholders and the Optionholders

Dear Sir or Madam,

(1) PROPOSAL TO CONSTITUTE EGANA JEWELLERY & PEARLS LIMITED AS A WHOLLY-OWNED SUBSIDIARY OF EGANAGOLDPFEIL (HOLDINGS) LIMITED BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 86 OF THE COMPANIES LAW OF THE CAYMAN ISLANDS

(2) PROPOSED PRIVATISATION AND WITHDRAWAL OF LISTING OF EGANA JEWELLERY & PEARLS LIMITED

We refer to the document of even date jointly issued by EganaGoldpfeil (Holdings) Limited and the Company (the "Document") of which this letter forms part. Terms defined in the Document shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to give a recommendation to the Independent Shareholders and the Optionholders in respect of the Proposal and the Option Offer respectively.

Having considered the terms of the Proposal and taking into account the advice of Somerley, in particular the factors, reasons and recommendations as set out in the letter from Somerley set out on pages 22 to 63 of the Document, we consider that the terms of the Proposal are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend that the Independent Shareholders vote in favour of the Scheme of Arrangement to be considered at the Court Meeting and the special resolution to be proposed at the EGM to approve and implement the Proposal. We further recommend that the Independent Shareholders elect entirely the Share Alternative.

Having considered the terms of the Option Offer and taking into account the advice of Somerley, in particular the factors, reasons and recommendations as set out in the letter from Somerley on pages 22 to 63 of the Document, we consider that the terms of the Option Offer are fair and reasonable so far as the Optionholders are concerned.

The Independent Board Committee draws the attention of the Independent Shareholders and the Optionholders to (i) the letter from the Board; (ii) the Explanatory Memorandum; and (iii) the letter from Somerley which sets out the factors and reasons taken into account in arriving at its recommendation to the Independent Board Committee contained in the Document.

Yours faithfully,
Charles Cho Chiu SIN **Eduardo Tang Lung LAU** **Professor Zhengfu WANG**
Independent Board Committee

SOMERLEY LIMITED
Suite 2201, 22nd Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

18 August 2006

To: The Independent Board Committee of
Egana Jewellery & Pearls Limited

Dear Sirs,

(1) PROPOSAL TO CONSTITUTE EGANA JEWELLERY & PEARLS LIMITED AS A WHOLLY-OWNED SUBSIDIARY OF EGANAGOLDPFEIL (HOLDINGS) LIMITED BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 86 OF THE COMPANIES LAW OF THE CAYMAN ISLANDS AND (2) PROPOSED PRIVATISATION AND WITHDRAWAL OF LISTING OF EGANA JEWELLERY & PEARLS LIMITED

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in connection with the proposed privatisation of the Company by way of a Scheme of Arrangement under Section 86 of the Companies Law of the Cayman Islands and the conditional offer by EganaGoldpfeil to the Optionholders to acquire the outstanding Options. Details of the Proposal and the Option Offer are contained in the document to the Scheme Shareholders and the Optionholders dated 18 August 2006 (the "Document") of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Document unless the context otherwise requires.

The Board comprises of seven executive Directors and four independent non-executive Directors. The Independent Board Committee, comprising three independent non-executive Directors, Messrs. Charles Cho Chiu SIN and Eduardo Tang Lung LAU and Professor Zhengfu WANG, has been constituted to consider and to make recommendations to the Independent Shareholders and the Optionholders in respect of the Proposal and the Option Offer respectively. One of the independent non-executive Directors, being Mr. Andy Yick Man NG, is also an independent non-executive director of EganaGoldpfeil and accordingly, is not considered independent to give advice on the Proposal and the Option Offer and has not been appointed as a member of the Independent Board Committee. Somerley has been appointed as the independent financial adviser to advise the Independent Board Committee in connection with the Proposal and the Option Offer.

Somerley is not associated or connected with the Company, EganaGoldpfeil, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, is considered eligible to give independent advice on the Proposal and the Option Offer. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, EganaGoldpfeil, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors or the EganaGoldpfeil Directors, which we have assumed to be true, accurate and complete as at the date of this letter. We have reviewed the published information on the Company and EganaGoldpfeil, including their annual reports for the five financial years ended 31 May 2005 and the unaudited interim reports for the six months ended 30 November 2003, 2004 and 2005. We have also reviewed the trading performances of the Shares and the EganaGoldpfeil Shares on the Stock Exchange and considered the future intentions of the EganaGoldpfeil Group regarding the Group.

We have sought and received confirmation from the Directors and the EganaGoldpfeil Directors that no material facts have been omitted from the information supplied and opinions expressed by them to us in connection with the Proposal. We consider that the information which we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to doubt the truth and accuracy of the information provided to us or that any material facts have been omitted or withheld. We have also assumed that all representations contained or referred to in the Document were true at the date of the Document and will continue to be true at the date of the Court Meeting and the EGM. We have, however, not conducted any independent investigation into the businesses and affairs of the Group and the EganaGoldpfeil Group, nor have we carried out any independent verification of the information supplied.

We have not considered the tax implications on the Scheme Shareholders of approving the Proposal since these depend on their individual circumstances. In particular, the Scheme Shareholders who are overseas resident or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

PRINCIPAL TERMS OF THE PROPOSAL AND THE OPTION OFFER

In summary, the Proposal and the Option Offer involve the following principal steps:

(a) all the Scheme Shares will be cancelled and, in consideration thereof, each Scheme Shareholder will be entitled to receive:

(i) for every 1.5 Scheme Share, the Share Alternative being 1 EganaGoldpfeil Share; or

(ii) for every Scheme Share, the Cash Alternative being HK$1.80 in cash ("Share Offer Price").

The Scheme Shareholders may elect the Share Alternative, the Cash Alternative or a combination of both. The total cash available under the Scheme of Arrangement is HK$130 million. Each Scheme Shareholder shall be entitled, on an assured basis, to elect the Cash Alternative in respect of up to 30% of its Shares. In the event that the amount of election for the Cash Alternative exceeds HK$130 million, elections by the Scheme Shareholders for the Cash Alternative in respect of more than 30% of their respective shareholdings is liable to be scaled down as nearly as practicable on a pro rata basis to elections in excess of 30% of the Share Offer Price and the balance shall be deemed to be for the Share Alternative.

(b) subject to and conditional upon the Scheme of Arrangement becoming effective, EganaGoldpfeil will offer to purchase the Options, for cancellation in exchange for cash at a price of HK$1 in aggregate to each Optionholder, irrespective of the number of the Options held by such Optionholder.

(c) the issued share capital of the Company will be reduced and the listing of the Shares on the Stock Exchange will be withdrawn immediately following the Effective Date.

As at the Latest Practicable Date, the Scheme Shareholders hold in aggregate 246,121,144 Scheme Shares, representing approximately 54.63% of the issued Shares and the Optionholders hold 9,075,000 Options. The aggregate amount of cash payable under the Cash Alternative will not exceed HK$130 million. Funding to effect the Proposal is to be made out of the internal resources or external bank borrowings of EganaGoldpfeil.

The Scheme of Arrangement is subject to a number of conditions, including but not limited to:

(a) sanction of the Scheme of Arrangement by the Court;

(b) approval of the Scheme of Arrangement by a majority in number representing 75% in value of the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting provided that the Scheme of Arrangement is approved (by way of poll) by the Independent Shareholders representing not less than 75% in value of the Scheme Shares, present and voting either in person or by proxy at the Court Meeting, provided that dissenting votes (taken by poll) against the Scheme of Arrangement at the Court Meeting cast by the Independent Shareholders not exceeding 10% in value of all the Scheme Shares held by the Independent Shareholders. As at the Latest Practicable Date, the Independent Shareholders held 204,431,677 Scheme Shares and 10% of such Shares amounted to 20,443,168 Shares;

(c) the approval of cancelling all of the issued Scheme Shares by a majority of at least three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at the EGM.

Details of the conditions to which the Scheme of Arrangement is subjected are set out in the section headed "Conditions of the Scheme of Arrangement" of the Explanatory Memorandum contained in the Document.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation with regard to the Proposal and the Option Offer, we have taken into account the following principal factors and reasons:

1. Background to and reasons for the Proposal and the Option Offer

(a) *Background*

The Company was listed on the Stock Exchange in July 1998. The Group is the jewellery division of the EganaGoldpfeil Group and is principally engaged in the design, manufacturing, distribution and trading of jewellery products; licensing or assignment of brand names to third parties for the design, manufacturing and/or distribution of jewellery and consumer products other than timepieces, leather accessories and holding of investments. The Group's operations are mainly located in Europe, Asia Pacific and America with majority of the turnover generated from the European markets.

Subsequent to its listing, the Company continued to expand in the United States of America (the "USA") and Europe through a series of acquisitions from 1998 to 2003. In 1998, the Group acquired two designer jewellery companies, namely duNouveau Designs Inc and Burkhard Mueller Schmuck GmbH, to enhance the Group's product range and customer base in the USA and Germany respectively. In 1999, it acquired jewellery trademark Kazto, a refined platinum diamonds collection, to penetrate further into the USA upscale segment. In the same year, the Group bought the Carrera trademark for jewellery to explore jewellery collections with an upscale sport accent. Two years later in 2001, the Group further expanded in Europe and the USA by purchasing an 85% interest in a German jewellery distributor of high-end jewellery, Abel & Zimmermann ("A&Z"). EganaGoldpfeil in 2003 bought one-third of the equity interest in JOOP! GmbH. JOOP! is a German fashion group principally involved in timepiece, jewellery, leather accessory and apparel products. Upon the acquisition by EganaGoldpfeil, the Group was granted the JOOP! jewellery licence for distribution of products worldwide. In the same year, the Group integrated the then production facilities of A&Z and newly acquired German manufacturer Guthmann + Wittenauer ("G+W"), to expand its customer base, manufacturing capacity, product range and expertise under the "one-stop shop" concept. Commencing from November 2003, the Shares were also traded on the stock exchange of Berlin, Germany.

(b) *Reasons for the Proposal and the Option Offer*

The reasons for the Proposal and the Option Offer are set out in the Explanatory Memorandum included in the Document. The main reasons for the Proposal and the Option Offer may be summarised as follows:

(i) the liquidity in the Shares traded on the Stock Exchange has been relatively low compared to that of the EganaGoldpfeil Shares. For the 3-month period from 6 April 2006 up to the Last Trading Date, the average daily trading value for and the average trading volume of the Shares was only approximately HK$1.2 million and 800,000 Shares respectively, representing only approximately 0.4% of the number of Shares in public hands;

(ii) the market capitalisation of the Company was only HK$711.9 million as at the Last Trading Date which may not be sufficient to retain public interest or interest from professional researchers or analysts or from high quality institutional investors. The Proposal offers the Scheme Shareholders an opportunity to exchange their investment to an interest in EganaGoldpfeil, whose shares are considered to have higher liquidity and investors' coverage as well as growth potential; and

(iii) the withdrawal of the listing of the Company will result in a leaner corporate structure of the EganaGoldpfeil Group and will enhance operational efficiency and management accountability.

Based on the information available to the Directors, the securities of the Group are not being covered continuously by any research analysts, which currently a total of six international and local securities firms issue research reports on the EganaGoldpfeil Group.

The EganaGoldpfeil Directors have confirmed that they do not intend to make any significant changes to the existing businesses and management structure of the Group following the Scheme of Arrangement becoming effective.

The Company will, subject to the approval of the Stock Exchange, withdraw the listing of the Shares on the Stock Exchange. However, in the event that the Proposal is not approved or lapses, the Company will maintain the listing of the Shares on the Stock Exchange.

2. Present business of the Group

The Group is an international multi-brand jewellery accessories marketing and distribution organisation with vertically integrated manufacturing support. It is the jewellery division of EganaGoldpfeil engaged principally in the design and distribution of high quality jewellery products to customers in Europe (principally Germany), America and Asia (such as Hong Kong, the People's Republic of China (the "PRC") and Japan). The jewellery products sold by the Group include pearls, rings, pendants, cufflinks, earrings, necklaces, bracelets and ornaments made of silver and gold.

The Group has operating presence in 10 strategic jurisdictions, comprising Germany, Austria, Italy, the Netherlands, Switzerland, India, Hong Kong, the PRC, Japan and the USA, to oversee and coordinate the marketing and distribution activities of appointed agents and distributors comprising a network covering over 55 countries with nearly 6,000 points-of-sales. The Group distributes its merchandise through retail outlets of the Group (approximately 1% of the Group's sales) and the EganaGoldpfeil Group (approximately 4% of the Group's sales), independent distributors, department stores, chain stores and other retailers. Approximately 95% of the Group's products is sold on a wholesale basis to the appointed agents and distributors and only approximately 5% of the turnover of the Group is attributed to retail sales to individual consumers at the stores of the Group and the EganaGoldpfeil Group.

The Group established a product development and production facility network with five plants across Europe and Asia. Each of them is specialised in its individual products and production process. The Asian facilities are generally operated for production of normal seasonal collections while the European plants are for high-end products. Two factories are located in the PRC, which are mainly responsible for gold and silver jewellery production. One production base is situated in Thailand, which is engaged in gold, silver and platinum jewellery production. The remaining two facilities mainly manufacture gold and platinum jewellery products and are located in Germany. The PRC facilities currently have 90 production and assembly lines with a maximum capacity of four million units per annum and possess an existing workforce of approximately 3,200. The Thailand production base now has 20 production and assembly lines with a maximum capacity of 1.5 million units per annum and employs about 155 workers and staff. The German plants have six production and assembly lines with a maximum capacity of 4.5 million units per annum and have a total number of approximately 120 employees. 70% of the products (both owned brands and licensed brand) distributed by the Group are manufactured by the Group. Additional manufacturing requirements are fulfilled by subcontractors. Currently, 30% of both owned and licensed branded products are manufactured by subcontractors. As at 30 November 2005, the Group employed a total work force of approximately 3,700 staff.

The Group has a portfolio of ten owned brands and six licensed brands. The owned brands include Kazto, Egana, Carrera, Abel & Zimmermann, Blue fire, DuNouveau, Ferrano, Jacquelin, Yamato (Perlen) and Dugena and the six licensed brands consist of Cerruti 1881, Esprit, JOOP!, MEXX, Goldpfeil and Pierre Cardin. Under the licence agreements, the Group designs, manufactures and distributes products of all six licensed brands on an exclusive basis. The branded products were marketed under three different segments, namely luxury, affordable luxury, and fashion and sporty lifestyle. Luxury brand products are sold between HK$2,800 and HK$400,000 and above, affordable luxury brands are priced at between HK$1,800 and HK$4,000 and the price range of fashion and sports products are between HK$350 and HK$1,500. Sales of branded products have been the major source of the Group's revenue, accounted for 77% of turnover for the 2004/05 financial year with the balance from private label (or brought-in-finished) items. Of the total sales volume of branded products, 48% are contributed by owned brands and 52% are contributed by licensed brands. Private label products are jewellery products manufactured by the Group without owning or licensing the relevant brands. Private label items tend to yield a lower gross margin compared to the Group's branded goods. As part of its strategy, the Group will continue to increase its focus on sales of branded goods given such approach has the advantage of enhancing the Group's operating margin as well as savings in logistic and delivery costs. The savings were originated from the Group's participation in the European Logistic Technology Centre ("ELTC"), which has consolidated a number of distribution centres and warehouse previously utilised by the Group for branded goods. Private label products do not enjoy such benefits as they do not have uniform coding, which is a prerequisite for effective and accurate delivery. Private label products are therefore required to be distributed through a more restrictive channel as compared with branded products and accordingly fail to enjoy the same cost efficient system with their branded counterparts.

The Group's turnover was mainly derived from the European markets with a geographical split among Europe, Asia Pacific and America of 76%, 15% and 9% respectively for the year ended 31 May 2005. In the foreseeable future, the management expects the European market to continue to be the major revenue contributor, particularly in view of the recent acquisition by EganaGoldpfeil of Salamander, a renowned footwear brand and retailers with extensive network in Europe in March 2005. The Group rode on Salamander's market coverage to expand its distribution and sales of leather products, such as leather watches, into Eastern Europe. The Group expects to further capitalise on Salamander's retail network for sales of branded jewellery in future. In addition, the Group is pursuing strategic alliance possibility to achieve further growth of business in Asia and the USA. The Group targets to increase the aggregate revenue proportion of these two regions to 35% through appropriate partnership with strong retail network and/or chain stores.

3. Historical financial performances of the Group

The following table summarises the audited consolidated results of the Group for the last five financial years and the unaudited consolidated results for the six-month periods ended 30 November 2004 and 2005 respectively:

Consolidated profit and loss account of the Company

	For the six months ended 30 November 2005	For the six months ended 30 November 2004	For the year ended 31 May 2005	For the year ended 31 May 2004	For the year ended 31 May 2003	For the 17-month period ended 31 May 2002 *(Note 1)*	For the year ended 31 December 2000
	(Unaudited)	*(Unaudited)*	*(Audited)*	*(Audited)*	*(Audited)*	*(Audited)*	*(Audited)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	433,124	420,668	851,352	977,633	718,382	855,738	670,648
Cost of sales	(234,511)	(232,461)	(489,344)	(607,521)	(420,431)	(476,590)	(375,184)
Gross profit	198,613	188,207	362,008	370,112	297,951	379,148	295,464
Other revenues	22,647	21,818	43,540	22,266	33,362	34,342	12,380
Distribution costs	(66,267)	(76,270)	(158,072)	(152,593)	(101,816)	(162,809)	(116,775)
Administrative expenses	(77,297)	(72,790)	(153,067)	(153,858)	(152,571)	(182,488)	(126,764)
Operating profit	77,696	60,965	94,409	85,927	76,926	68,193	64,305
Finance costs	(18,695)	(10,511)	(25,515)	(22,448)	(15,745)	(22,972)	(17,065)
Profit before taxation	59,001	50,454	68,894	63,479	61,181	45,221	47,240
Taxation	(6,423)	(2,022)	5,658	5,017	(3,241)	(3,444)	(4,610)
Profit for the period/year	52,578	48,432	74,552	68,496	57,940	41,777	42,630
Attributable to:							
the Shareholders	52,578	48,431	74,552	68,495	57,939	42,286	42,630
minority interests	—	1	—	1	1	(509)	—
	52,578	48,432	74,552	68,496	57,940	41,777	42,630
Dividends	11,264	21,316	30,621	30,572	31,020	4,653	11,795
Earnings per Share							
Basic	12.48 cents	14.33 cents	20.27 cents	22.00 cents	18.68 cents	13.63 cents	13.75 cents
Diluted *(Note 2)*	12.11 cents	N/A	N/A	21.38 cents	N/A	N/A	13.70 cents

Notes:

1. The Group changed its year end date from 31 December to 31 May during the 2001/02 financial year, which resulted in a period of 17 months for the 2001/02 financial year.

2. As the Options' exercise price was above average fair value of the Shares during the relevant years/periods, no diluted earnings per share was calculated as there were no dilutive potential Shares.

Analysis of profitability

	For the six months ended 30 November 2005 (Unaudited) HK$'000	For the six months ended 30 November 2004 (Unaudited) HK$'000	For the year ended 31 May 2005 (Audited) HK$'000	For the year ended 31 May 2004 (Audited) HK$'000	For the year ended 31 May 2003 (Audited) HK$'000	For the 17-month period ended 31 May 2002 (Audited) HK$'000	For the year ended 31 December 2000 (Audited) HK$'000
Gross profit margin	45.9%	44.7%	42.5%	37.9%	41.5%	44.3%	44.1%
Operating profit margin	17.9%	14.5%	11.1%	8.8%	10.7%	8.0%	9.6%
Net profit margin	12.1%	11.5%	8.8%	7.0%	8.1%	4.9%	6.4%
Growth in net profit	8.6%	19.8%	8.8%	18.2%	96.5%	(30.8%) *(Note 1)*	(40.8%)

Note:

1. The Group changed its year end date from 31 December to 31 May during the 2001/02 financial year, which resulted in a period of 17 months for the 2001/02 financial year. For the purpose of analysis, the growth rate for this period has been annualised.

(a) *Analysis of turnover and gross profit*

Set out below is an analysis of turnover (with geographical segment breakdown), growth in turnover, gross profit and gross profit margin of the Group for the last five financial years and for the six-month periods ended 30 November 2004 and 2005 respectively:

	For the six months ended 30 November 2005 (Unaudited) HK$'000	For the six months ended 30 November 2004 (Unaudited) HK$'000	For the year ended 31 May 2005 (Audited) HK$'000	For the year ended 31 May 2004 (Audited) HK$'000	For the year ended 31 May 2003 (Audited) HK$'000	For the 17-month period ended 31 May 2002 (Audited) HK$'000	For the year ended 31 December 2000 (Audited) HK$'000
Turnover							
Europe	363,305	348,351	650,766	627,749	562,997	694,824	562,911
America	45,428	43,358	76,037	64,805	55,731	112,339	60,838
Asia Pacific	24,391	28,959	124,549	285,079	99,654	48,575	46,899
	433,124	420,668	851,352	977,633	718,382	855,738	670,648
Growth in turnover	3.0% *(Note 1)*	8.0% *(Note 1)*	(12.9%)	36.1%	18.9% *(Note 2)*	(9.9%) *(Note 2)*	(3.1%)
Gross profit	198,613	188,207	362,008	370,112	297,951	379,148	295,464
Gross profit margin	45.9%	44.7%	42.5%	37.9%	41.5%	44.3%	44.1%

Notes:

1. The growth in turnover for the six months ended 30 November 2005 and 2004 are calculated based on the turnover of the period against the corresponding period in the previous year.

2. The relevant figures are calculated based on turnover of approximately HK$718 million for the year ended 31 May 2003 and annualised turnover of approximately HK$604 million for the 17-month period ended 31 May 2002.

As illustrated in the table above, during the past five financial years, the Group's revenue generally demonstrated an upward trend and registered a cumulative average growth rate ("CAGR") of approximately 5.6% per annum. For the 17-months period ended 31 May 2002, the annualised turnover dropped by 9.9% because of global economic downturn after the "September 11" event in 2001 and the continuous weakness in Euros. The total turnover of the Group reached HK$718.4 million for the year ended 31 May 2003, notwithstanding the effect of the outbreak of Severe Acute Respiratory Syndrome ("SARS") and the Iraq war. As discussed with the management, the Group has been benefiting from an enlarged customer base after the acquisition of G+W in Germany and the commencement of operations of a new jewellery factory in the PRC for delivery of shipment to Europe in August 2002. Revenue from Europe saw a 14.8% growth, together with increased sales in Asia by nearly two fold as a result of encouraging developments of jewellery products of MEXX and Pierre Cardin in Asia and increasing market share in the PRC and Taiwan markets for Esprit Jewel. For the year ended 31 May 2004, Asian markets showed positive signs of recovery from SARS and the after effects of Iraq war, the Group's turnover derived from the region surged to HK$285.1 million from HK$99.7 million in the previous year. Turnover of the Group in 2005 decreased by 12.9% from 2004, which was primarily due to the decrease in sales to the Asia Pacific region by 56.3%. As advised by the management, it was mainly due to the Group's strategy to introduce more branded products in place of private label goods given their relatively higher profit margin. In fact, the Asian operations accomplished a segment result of HK$16.9 million for the year ended 31 May 2005, representing an approximately 68.8% improvement over that of the previous year despite the drop in revenue.

Turnover for the six months ended 30 November 2005 was HK$433.1 million, representing a modest increase of 3.0% from that of the corresponding period in 2004. The growth could be mainly attributable to the expansion of sales network into Eastern Europe following EganaGoldpfeil's acquisition of Salamander in March 2005, as the Group was allowed to expand its coverage to distribute its products through Salamander's retail network there. Nevertheless, contraction of the Group's sales to the Asia Pacific segment continued as revenue from the region dropped by 15.8% during the six months ended 30 November 2005 compared to that of the corresponding period in prior year. Similar to the performance of the Group's Asian unit for the year ended 31 May 2005, the management of the Group attributed such decrease to their strategy to remain focus on sales of branded products. Whilst sales in Asia dropped by HK$4.6 million, the Asian segment results recorded an improvement of HK$0.5 million over that of the corresponding period in prior year as disclosed in the 2005/06 interim report of the Company.

The Group's peak season is generally near the end of each calendar year when European consumers purchase their Christmas holiday gifts at the time. As discussed above, a majority of the Group's sales were made on a wholesales basis to retailers. The management of the Group explained that most of the retailers would maintain 30 to 45 days stock on hand. Therefore a majority of sales of the Group would be concluded before the middle of November in anticipation of the retailers' peak season in the Christmas. Sales for such period are included in the interim period of the Group ending 30th November. From January to May, turnover was mostly generated at trade fairs, including Inhorgenta Fair in February, Basel Fair in April, EGH Offenbach Fair in May and JCK Fair in June. There was a six-month merchandising program, which the Company would agree with its customers a certain amount of purchases in the following six months after the fair. Therefore, the Group continuously receives orders in following six months after the trade fairs. For JCK Fair, although it is held in June, the Group manages to procure some orders prior to the fair. Based on the Group's experiences, the seasonality of the Group's turnover is minimal, the turnover split between the first and the second half of the financial year is around 50:50.

As shown in the table above, the majority of the Group's revenue was mainly derived from the European markets which were denominated in Euros. The appreciation of Euros against other major currencies in the last few years, therefore, had a significant impact on the turnover and performance of the Group. For instance, Euros have appreciated against the United States dollars ("US$") from approximately 1 Euro to US$0.85 in mid-2001 to approximately 1 Euro to US$1.30 in late 2004. As discussed with the management of the Group, during the aforesaid period, approximately 74% income were denominated in Euros, while approximately 40% expenses were denominated in Euros. This together with the currency hedging activities carried out by the Group, resulted in net exposure of approximately 7% of net profit to the currency movement. From year 2001 to 2004, the net foreign exchange gain amounted to approximately HK$27.0 million, being approximately HK$7.5 million, HK$13.0 million and HK$6.5 million for the financial years ended 31 May 2004, 2003 and 2002 respectively.

The gross margin of the Group remained between approximately 37.9% and 45.9%. The fall in gross margin for the year ended 31 May 2003, as stated in the Group's 2002/03 annual report, was attributable to the offer of 3% discount to the established clientele in view of the global economic downturn during the year. Gross margin was further diluted to 37.9% for the year ended 31 May 2004 when the Group explored into new markets in Asia, particularly the PRC. For the year ended 31 May 2005, the gross margin rebounded from 37.9% to 42.5%, the management accredited such rise to the Group's strategy to focus on higher margin branded products as the revenue split between branded products and private label business has increased to 77% to 23%, compared to 56% to 44% for the previous year.

Gross margin increased further in the latest six-month period ended 30 November 2005 to 45.9% from 44.7% in the corresponding period in 2004 as the Group continued to pursue the aforesaid defined strategy.

(b) *Operating results and the net profit attributable to the Shareholders*

Distribution costs decreased from HK$116.8 million for the year ended 31 December 2000 to HK$101.8 million for year ended 31 May 2003. The savings were driven by share of the expenditure on the global marketing and promotion program by the newly appointed distributors and agents as well as the Group's participation in the ELTC established by EganaGoldpfeil in Frankfurt, Germany in 2003 which provided enhanced supply chain management functions. The distribution costs went up to HK$152.6 million and HK$158.1 million for the year ended 31 May 2004 and 2005 respectively. As advised by the management of the Group, following completion of a series of acquisitions in the past few years, the Group in 2004 and 2005 invested substantial resources on product research and development, exhibition and trade fair, and advertising and promotion in order to capitalise on the anticipated benefit from the acquisitions. In addition, the Group also extended the EganaGoldpfeil Fairs held at the Group's European headquarters at Offenbach – Frankfurt into autumn and winter in addition to the summer fair. Administrative expenses remained near approximately HK$130 million for the financial years ended 31 December 2000 and 31 May 2002 (on annualised basis), however, the amount increased to HK$153 million for the year ended 31 May 2003 as a result of commencement of the two additional processing plants. As explained by the management of the Group, due to the ongoing review and control of the Group's operational structure and corporate structure, administrative expenses were maintained at approximately HK$152.6 million for each of the two years ended 31 May 2005. For the year ended 31 May 2005, despite the drop in turnover of approximately 12.9%, operating profits increased by 9.9% as a result of improvement in gross margin as well as increase in interest income and investment income of approximately HK$16.7 million. For the last five financial years, operating profit margins were between 8.0% and 11.1% and net profit margins were between 4.9% and 8.8%, both remained fairly stable. The fluctuations of the operating profit margins were generally in line with the changes in the gross profit margins.

The Group recorded a net profit of HK$74.6 million for the year ended 31 May 2005, compared to the net profit of HK$42.6 million achieved for the year ended 31 December 2000, it represents a CAGR of approximately 13.5%.

For the six-months ended 30 November 2005, the operating profit margins continued to improve to 17.9% from 14.5% in the corresponding period in prior year. The increase was primarily driven by the continuous improvement in logistic, efficiency of the ELTC as well as the enhancement in gross margin, which also had off-set the additional product development costs incurred.

Generally, the Group has in recent years, generated stable growth in turnover and net profits. During such period, the Group made a number of acquisitions which enabled it to continuously expand into new markets, which together with adjustments made to its product mix, have contributed to turnover and profits growth. Overall product margins were relatively stable and the Group managed to deliver continuous stable growth.

(c) *Dividends paid to the Shareholders*

During the three years ended 31 May 2003, 2004 and 2005, the Company paid dividends to the Shareholders in the amounts of approximately HK$31.0 million (HK$0.10 per Share), HK$30.6 million (HK$0.095 per Share) and HK$30.6 million (HK$0.0735 per Share), respectively. These dividends represented a yield of approximately 6.3%, 6.0% and 4.7% for the respective year based on the closing Share price of HK$1.58 as at Last Trading Date.

Based on the latest published financial position of the Group as at 30 November 2005, the Group had net cash position (being cash and cash equivalents less short-term bank borrowings) of approximately HK$223.4 million. As discussed with the management of the Group, there was no intention to significantly alter the dividend policy of the Company. Accordingly, despite the sufficient level of financial resources, it remains uncertain that future dividend payment can be increased in the future so as to increase the dividend yield to that comparable to those achieved in previous years.

4. Financial positions of the Group

The following table summarises the financial positions of the Group as at 30 November 2005 and 31 May 2005 respectively:

	As at 30 November 2005 (Unaudited) HK$'000	%	As at 31 May 2005 (Audited) HK$'000	%
Non-current assets				
Fixed assets and leasehold land	48,651	3.4%	44,570	3.4%
Intangible assets	108,158	7.6%	114,965	8.7%
Investments in non-trading securities	—	—	150,760	11.5%
Available-for-sale financial assets	87,090	6.1%	—	—
Others	12,032	0.8%	16,587	1.3%
	255,931	17.9%	326,882	24.9%
Current assets				
Inventories	339,063	23.7%	269,493	20.5%
Accounts and other receivables	332,994	23.3%	200,777	15.3%
Others	35,108	2.4%	98,570	7.5%
Cash and cash equivalents	467,288	32.7%	418,149	31.8%
	1,174,453	82.1%	986,989	75.1%
Total assets	1,430,384	100.0%	1,313,871	100.0%
Less:				
Accounts payable, accruals and other payables	(250,404)		(195,674)	
Bank borrowings and other long-term liabilities	(440,277)		(446,115)	
Others	(33,678)		(11,588)	
	(724,359)		(653,377)	
Net assets	706,025		660,494	
Attributable to:				
the Shareholders	705,986		660,453	
minority interests	39		41	
	706,025		660,494	

(a) *Assets*

(i) Fixed assets and leasehold land

Fixed assets of the Group mainly comprised land and buildings, leasehold improvements, plant and machinery and furniture and fixtures. As stated in the 2004/05 annual report of the Company, all fixed assets were stated at cost less accumulated depreciation, except for leasehold land and buildings which were stated at valuation less accumulated depreciation. For the purpose of preparation of the audited accounts, the leasehold land and buildings situated in Hong Kong were revalued as at 31 May 2005 by an independent professional valuer on an open market basis. The freehold and leasehold land and buildings of the Group were carried at a net book value of HK$1.8 million and at a valuation of HK$7.0 million respectively as at 31 May 2005. Furniture and fixtures, which amounted to HK$18.2 million, represented the biggest component of fixed assets.

(ii) Intangible assets

Intangible assets of the Group include principally goodwill, know-how, licences and trademarks. As at 31 May 2005, the Group had a goodwill of approximately HK$88.1 million which arose mainly from the acquisition of JOOP! jewellery distribution business from a German distributor in 2003. The trademarks are related to well known and long established luxury and fashion consumer brands including Kazto and Carrera owned by the Group. As disclosed in the audited accounts of the Group for the year ended 31 May 2005, an independent professional valuer conducted valuations of material trademarks as at the balance sheet date and the valuer considered the values of the trademarks were significantly higher than their carrying amounts. The Directors were of the view that, as stated in the 2005/06 interim report of the Company, the value of the brand portfolio (both owned and licensed brands) would be in the range of HK$1,200 million in addition to the value of intangibles recorded on the Group's books.

(iii) Investments in non-trading securities and available-for-sale financial assets

The Group held HK$87.1 million available-for-sale financial assets as at 30 November 2005. The entire amount was reclassified from investments in non-trading securities as at 31 May 2005 as a result of the changes in the accounting standards effective on the Company's financial year ended 31 May 2006. The investments in non-trading securities of HK$150 million as at 31 May 2005 comprised equity securities listed in Hong Kong of HK$75 million, unlisted securities in a private closed-end fund of HK$38 million and an unlisted company of HK$37 million respectively. They are strategic investments, with interest in 15% to 19% of the respective investee companies, for the purpose of business cooperation in distributing the jewellery products in the PRC and Taiwan markets. The decrease in the value of investments, as explained by the management of the Group, was mainly due to the realisation of a strategic investment involving a jewellery distribution in Taiwan.

(iv) Inventories

The inventories represented approximately 23.7% and 20.5% of the Group's total assets as at 30 November 2005 and 31 May 2005 respectively. Inventory of the Group principally comprised raw materials including precious metals, precious stones and diamonds, and finished goods such as jewellery products such as chain bracelets, rings, bangles, pendulums, earrings, necklaces, which compose of diamond, platinum, silver, gold, steel, precious stone and/or pearls. Raw materials increased from HK$64.4 million as at 31 May 2005 to HK$84.6 million as at 30 November 2005, representing an 31.4% increment, this was attributable to the Group's taking steps to keep a stable reserve of materials to support the production of branded products as a trend setter and hedge against the anticipated increase in price of the precious metals. Furthermore, work-in-progress and finished goods also grew by HK$49.4 million which was attributed to two main factors: (i) the increase in material costs; and (ii) increased sales order received from the autumn trade fairs and a higher re-order quantity level reserved for winter fairs. The Directors consider that finished products can be re-processed in the event they become slow moving and as a result, the Group has not in the past experienced significant provisions.

(v) Accounts and other receivable

The accounts and other receivables of the Group represented approximately 23.3% and 15.3% of the Group's total assets as at 30 November 2005 and 31 May 2005 respectively.

The Group usually grants an average credit period of 30 to 120 days to its trade customers. Although the debtor balance increased from HK$85.4 million as at 31 May 2005 to HK$172.0 million as at 30 November 2005, the annualised debtors turnover for the six-months period ended 30 November 2005 was similar to that for the year ended 31 May 2005 which was within 80 days. As discussed with the management of the Group, the increase in accounts receivable was due to a number of contributing factors, including: (i) the introduction of the Group's jewellery products to new customers in the jurisdictions where Salamander has a strong presence (e.g. Eastern Europe); (ii) strong re-orders after the major trade fairs such as EganaGoldpfeil Fair, JCK Fair and Basel Fair; (iii) the extension of the markets and points-of-sales into other relatively new jurisdictions such as the PRC and the Middle East; and (iv) certain particularly large sales orders were received near 30 November 2005. A majority of the outstanding balances, representing approximately 78.2% and 86.9% to the total accounts receivable as at 31 May 2005 and 30 November 2005 respectively, were due within three months from the respective balance sheet dates.

Other receivables, comprised deposits and royalty deposits, prepayments and other receivables, increased from HK$108.0 million as at 31 May 2005 to HK$155.0 million as at 30 November 2005 as a result of escrow money being placed for the potential investments in certain strategic alliances and investments in the USA for extension of the Group's distribution network.

(b) *Cash and borrowings*

Cash and cash equivalent of the Group formed a substantial part of the asset base and represented approximately 32.7% and 31.8% of the Group's total assets as at 30 November 2005 and 31 May 2005 respectively. The balances largely consisted of short-term deposits with financial institutions with maturity of less than three months bearing prevailing commercial interest rates. The cash position surged to HK$418.1 million as at 31 May 2005 from HK$199.8 million as at 31 May 2004. As discussed with the management of the Group, such increment could be attributable to (i) the draw down of a medium term loan of HK$120 million; and (ii) the increase in utilisation of trading facilities amounted to HK$32 million during the year ended 31 May 2005. The cash balance further increased to HK$467.3 million as at 30 November 2005 mainly due to the receipt of proceeds of HK$39 million from the further issuance of convertible bonds. As discussed with the management of the Group, the significant cash balance is reserved for potential acquisition in strategic investments and alliances in order to expand the Group's distribution network. The gearing ratio, being net debts to Shareholders' funds, were 0.67 times and 0.62 times as at 31 May 2005 and 30 November 2005 respectively, which were in line with those of the Comparable Companies (defined below) having an average of approximately 0.64 times.

Based on the cash position of the Group of HK$467.3 million as at 30 November 2005 and the 450,552,821 Shares in issue as at the Latest Practicable Date, cash per Share is approximately HK$1.04.

Generally, the Group is in a strong financial position with significant net assets and net current assets. The significant cash reserves of the Group ensure the Group with a sound liquidity position. Positions relating to the inventories, receivables and fixed assets remain rather stable with no signs of deterioration. The Directors consider the Group's brandnames and trademark licenses are valued substantially above their book value. However, as no formal independent valuations for the entire brand portfolio has been performed, we have not formally quantified the effect of such excess.

5. Relationship with the EganaGoldpfeil Group

The Group and the EganaGoldpfeil Group operate in similar markets with a heavy focus in Western Europe, in particular, the consumer markets in Germany. The Group and the EganaGoldpfeil Group, to an extensive degree, distribute their products with the same retailers due to the complimentary nature of their products. For instance, when the EganaGoldpfeil Group acquired the operations of Salamander, the Group was able to develop its distribution of products through operations of Salamander in the Eastern Europe.

When the EganaGoldpfeil Group developed its ELTC as its centre for supply chain management, the Group participated. The EganaGoldpfeil Group charged the Group at cost for the use of the ELTC and other distribution network. The two groups collaborated in a number of business functions, including sharing of corporate premises and corporate administrative services.

In terms of products, there are extensive licensing arrangements between the Group and the EganaGoldpfeil Group for the use by the Group of brandnames or licensed rights owned by EganaGoldpfeil and sales and purchases of goods between the Group and the EganaGoldpfeil Group. For the brands used by the Group licensed from the EganaGoldpfeil Group, the Group pay royalty fee to the EganaGoldpfeil Group on an arm's length basis from the perspectives of both the Group and EganaGoldpfeil Group.

In view of the extensive collaboration of the operations of the Group and the EganaGoldpfeil Group, it makes commercial sense for the two groups to be merged thereby enabling their operations to be managed more efficiently. To the extent that the Group benefit from a more efficient operation, the Shareholders who choose to continue to participate by holding EganaGoldpfeil Shares should stand to benefit.

6. Prospects of the Group and intention of EganaGoldpfeil

While no details have been published, based on the track record in acquisition and the strategy in seeking strategic alliances and investments proactively, it is indicative that the Group is continuing to pursue growth through strategic mergers and acquisitions. While the Group is in strong financial position to make acquisitions, the future prospect will, to a degree, depends on the Group's ability to integrate such acquisitions and leverage on the growing brand portfolio and distribution network.

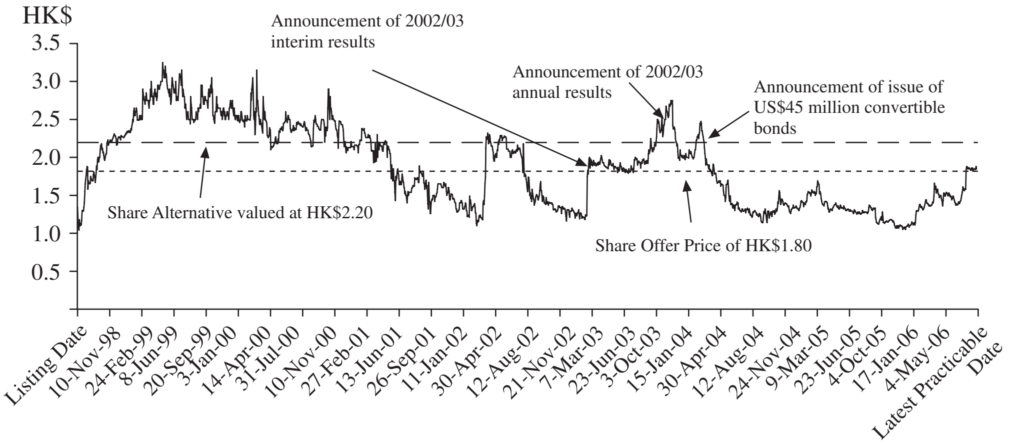
The Company is pursuing strategic alliance possibility to achieve further growth in business in Asia and the USA. As stated in the Company's 2005/06 interim report, the management believed that with the Group's existing integrated product development and production capabilities, together with a portfolio of internationally recognised brands, the Group should seek to partner with strong retail network and/or chain stores in Asia and the USA with a view to increase such markets' share of the Group's revenue in the next five years. The management is confident that steady growth can be achieved in such regions for the jewellery business as a whole. We understand that, as discussed in sub-section 4(a)(v) above, the Company has actively explored potential investment opportunity in strategic alliances and investments. To this end, the Group has placed escrow money for negotiation of acquisition of a distribution network in the USA for extension of the Group's global coverage. Based on the Group's historical performances and accomplishments in various acquisitions in the past, we concur that the Group has the prospect to achieve steady growth in the future.

It is the intention of EganaGoldpfeil to continue the existing businesses of the Group and not to make any significant changes to the management and staff employment of the Company or any significant redeployment of its fixed assets if the Scheme of Arrangement becomes effective and is implemented.

7. Trading performance of the Shares

(a) *Share price performance*

The chart below illustrates the daily closing prices per Share from 27 July 1998 (the date of commencement of dealings in the Shares on the Stock Exchange) (the "Listing Date") up to and including the Latest Practicable Date.



Source: Bloomberg

Since the Listing Date up to and including the Last Trading Date, the closing prices of the Shares (the "Share Price"), adjusted for the effect of Share consolidation on 5 September 2002, ranged from HK$1.04 to HK$3.25 per Share. The Share Price rose significantly since the Listing Date until 5 April 1999, when the Share Price closed at its historical peak. Since then, the Share Price fell gradually and closed at 27 February 2002 at a low of HK$1.10, which was well below the Share Price at its initial listing of HK$1.35. The Share Price increased significantly for approximately one week after the Group announced its interim results for the period ended 30 November 2002 on 21 February 2003. Subsequent to the announcement of full year results for the year ended 31 May 2003 on 30 September 2003, the Share Price climbed to reach at HK$2.75 per Share. Since then, the Share Price gradually decreased to below HK$1.70 until the Last Trading Date. From 1 July 2004 to the Last Trading Date (the "Comparison Period"), the average Share Price was approximately HK$1.33.

The Share Offer Price represents a premium over the Share Price for the following dates/periods:

Date/Period:	**The Last Trading Date**	**For 10 trading days ended on the Last Trading Date**	**For one month ended on the Last Trading Date**	**For three months ended on the Last Trading Date**	**For six months ended on the Last Trading Date**
Share Price	HK$1.58	HK$1.56	HK$1.46	HK$1.48	HK$1.41
Premium:	13.9%	15.4%	23.3%	21.6%	27.7%

The Share Offer Price represents significant premiums over the Share Price over the above mentioned dates/periods and the Share Price has not reached the Share Offer Price for more than two years before the Last Trading Date.

The Share Price rose from the closing price on the Last Trading Date of HK$1.58 to HK$1.84 on 11 July 2006, being the first trading day on which the Shares were traded after the publication of the Announcement. In our opinion, such increment in the Share Price was mainly due to the floor of the Share Offer Price as set out in the terms of the Proposal. Since the publication of the Announcement, the Share Price fluctuated within a narrow range of HK$1.82 to HK$1.88. As at the Latest Practicable Date, the Share Price closed at HK$1.86. Given the range at which the Share has traded during the Comparison Period, we consider the market price of the Shares is unlikely to remain at the current level if the Proposal is withdrawn or lapses.

(b) ***Trading volume of the Shares***

The following table sets out the total monthly trading volume and turnover value of the Shares, during the Comparison Period:

	Total monthly trading volume of the Shares	**% of the total monthly trading volume to the total issued Shares**	**% of total monthly trading volume to public float**	**Total monthly turnover value of the Shares**
				HK$
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 1)*
2004				
July	26,009,360	8%	29%	33,884,720
August	24,668,467	8%	27%	30,980,290
September	38,736,039	11%	37%	47,377,530
October	97,350,653	26%	74%	123,768,600
November	99,634,602	26%	75%	142,399,900
December	23,441,514	6%	18%	31,193,140
2005				
January	21,305,760	6%	16%	29,212,140
February	47,333,443	12%	32%	72,036,720
March	87,923,534	21%	53%	137,886,400
April	34,414,640	8%	21%	46,363,010
May	15,369,200	4%	9%	21,025,950
June	13,444,094	3%	8%	17,676,480
July	14,647,800	4%	9%	18,517,840
August	16,441,200	4%	10%	21,428,710
September	20,877,130	5%	12%	25,478,620
October	15,291,621	4%	9%	17,803,300
November	13,449,240	3%	7%	15,264,790
December	5,037,862	1%	3%	5,456,669

	Total monthly trading volume of the Shares *(Note 1)*	% of the total monthly trading volume to the total issued Shares *(Note 2)*	% of total monthly trading volume to public float *(Note 3)*	Total monthly turnover value of the Shares *HK$* *(Note 1)*
2006				
January	30,040,993	7%	15%	36,174,870
February	73,758,065	16%	37%	99,624,010
March	66,440,825	15%	33%	100,564,900
April	22,522,295	5%	11%	33,555,180
May	12,796,334	3%	6%	19,263,740
June	12,067,184	3%	6%	18,112,290
July	64,342,131	14%	31%	116,651,700
1 August to the Latest Practicable Date	10,280,670	2%	5%	19,051,427

Notes:

1. Source: Bloomberg

2. Based on the number of Shares in issue as at the end of each month provided by the Company. For monthly trading volume from 1 August 2006 to the Last Practicable Date, calculation is based on the number of Shares in issue as at the Latest Practicable Date.

3. The public float is calculated based on the number of Shares in issue as set out in note 2 above excluding the Shares held by EganaGoldpfeil.

As illustrated in the above table, the trading volume of the Shares showed a pattern where it increases in the month of and the two months subsequent to the announcements of the Group's annual results and interim results. Save as discussed above, the percentage of total monthly trading volume to public float was thin across the Comparison Period. Given the relatively thin trading volume of the Shares, it may be difficult for Shareholders with significant holdings in the Shares to realise their investment in the market without putting pressure on the market price of the Shares. In this regard, we concur with the Directors' view that the Proposal represents an opportunity for the Scheme Shareholders to exchange their investments to EganaGoldpfeil Shares which have a higher level of liquidity. Detailed discussion on the trading volume of EganaGoldpfeil Shares are included in the sub-section 11(e) headed "Trading volume of the EganaGoldpfeil Shares".

8. **Value implied by the Proposal**

The Proposal involves the cancellation of the Scheme Shares on the following basis:

Alternatives	**Scheme Shares**	**Cancellation Consideration**	**Implied value per Scheme Share based on the closing price of the EganaGoldpfeil Share as at the Last Trading Date**
Share Alternative	for every 1.5 Scheme Share	one EganaGoldpfeil Share; or	HK$2.20
Combo Alternative	for every Scheme Share	30% in cash with the remainder deemed to be the Share Alternative	HK$2.08
Cash Alternative	for every Scheme Share	HK$1.80 in cash	HK$1.80

(a) *Price to earnings multiples*

The Group reported a net profit of HK$74.6 million for the year ended 31 May 2005 and the basic earnings per Share ("EPS"), based on the weighted average number of Shares of approximately 367,754,000 Shares in issue during the year, was approximately HK$0.2027. Based on 450,552,821 Shares in issue as at the Latest Practicable Date, the EPS would be further diluted to approximately HK$0.1655.

The price to earnings ("P/E") multiple of the Shares at the closing price of HK$1.58 on the Last Trading Date, based on 450,552,821 Shares as at the Latest Practicable Date, was approximately 9.6 times. The P/E multiples of the Scheme Shares as implied by the Combo Alternative of HK$2.08 and the Share Alternative of HK$2.20 are approximately 12.6 times and 13.3 times respectively.

(b) *Comparison to net asset value and net tangible asset value*

As disclosed in the 2005/06 interim report of the Group, the unaudited consolidated net asset value ("NAV") and net tangible asset value ("NTAV") as at 30 November 2005 were approximately HK$706.0 million and HK$597.8 million respectively. Based on 450,552,821 Shares in issue and adjusted for the interim dividend of HK$11.3 million which has been paid out as at the Latest Practicable Date, the adjusted consolidated NAV per Share and adjusted consolidated NTAV per Share were HK$1.54 and HK$1.30 respectively.

Set out below is a comparison between the unaudited adjusted consolidated NAV and NTAV per Share under each of the Share Alternative, the Combo Alternative and the Cash Alternative. For comparison purpose only, the value of the EganaGoldpfeil Shares in the table below is assumed to be HK$3.30 per EganaGoldpfeil Share, being the closing price on the Last Trading Date. As the exercise price of the Share Options of HK$2.24 per Share is above the implied values of each of the alternatives, we consider it is more appropriate to adopt the consolidated NAV per Share and the consolidated NTAV per Share without taken into account the effects of the exercise of the Options by the Optionholders. The Group also had convertible bonds of HK$3.6 million outstanding as at 30 November 2005. The holder of the convertible bonds agreed with the Group in May 2006 to waive its rights in relation to the subscription rights attached to the convertible bonds. As at the Latest Practicable Date, save for 9,075,000 Options outstanding, no other financial instruments were outstanding and convertible into the Shares.

	As at 30 November 2005	
	Adjusted consolidated NAV per Share	**Adjusted consolidated NTAV per Share**
	HK$	*HK$*
On the basis of 450,552,821 Shares in issue as at the Last Practicable Date	1.54	1.30
Premium of the Share Price of HK$1.58 over the adjusted consolidated NAV/NTAV as at the Last Practicable Date	2.6%	21.5%
Premium of the Share Alternative (HK$2.20 per Share)	**42.9%**	**69.2%**
Premium of the Combo Alternative (HK$2.08 per Share)	**35.1%**	**60.0%**
Premium of the Cash Alternative (HK$1.80 per Share)	**16.9%**	**38.5%**

9. **Comparison with comparable companies**

We have selected companies comparable to the Company based on the following criteria:

(i) listed on the Stock Exchange;

(ii) principally engaged in the design, manufacturing, distribution and trading of jewellery products and/or timepieces (with at least 75% revenue contributed by these businesses);

(iii) have profitable operations; and

(iv) not suspended from trading of its shares.

After reviewing all the companies listed on the Stock Exchange, we have selected the following comparable companies (the "Comparable Companies"):

(i) EganaGoldpfeil;

(ii) Peace Mark (Holdings) Limited ("Peace Mark") (stock code: 304);

(iii) Continental Holdings Limited ("Continental") (stock code: 513);

(iv) Ming Fung Jewellery Group Limited ("Ming Fung") (stock code: 860);

(v) Hang Fung Gold Technology Limited ("Hang Fung") (stock code: 870); and

(vi) Man Sang International Limited ("Man Sang") (stock code: 938);

(a) *Comparison of P/E multiples*

	P/E multiple (times) *(Note 1)*
EganaGoldpfeil *(Note 2)*	17.9
Peace Mark	20.9
Continental	4.5
Ming Fung	4.2
Hang Fung	6.9
Man Sang	5.6
Average	**10.0**
The Company *(Note 2)*	9.6
The Share Alternative *(Note 3)*	**13.3**
The Combo Alternative *(Note 3)*	**12.6**
The Cash Alternative *(Note 3)*	**10.9**

Notes:

1. Source: Bloomberg, except for EganaGoldpfeil and the Company.

2. The P/E multiples are calculated by reference to the closing share price of respective companies on the Last Trading Date.

3. The P/E multiples are calculated by the implied values of the Combo Alternative, the Share Alternative or the Cash Alternative, as the case maybe.

As shown above, the P/E multiples of the Comparable Companies range from 4.2 times to 20.9 times. The simple average of the P/E multiples is approximately 10.0 times. The Combo Alternative, the Share Alternative and the Cash Alternative are all within the range and above the average of the Comparable Companies. Having considered the Share Offer Price being established close to the average of the valuation of the Comparable Companies and in particular the price implied by the Combo Alternative and the Share Alternative representing towards the higher end of the pricing range of the Comparable Companies, we consider the Share Offer Price to be fair and reasonable.

(b) *Comparison of closing price to consolidated NAV per share*

Set out below is a table comparing of share prices of the Comparable Companies and that of the Company to their respective underlying consolidated net asset value:

	Closing price per share as at the Latest Practicable Date/Last Trading Date	Consolidated NAV per share	Premium/ (discount) of closing share price over/(to) consolidated NAV per share
	HK$	*HK$*	*%*
	(Note 1)	*(Note 2)*	
EganaGoldpfeil *(Note 3)*	3.30	1.36	142.6
Peace Mark	4.24	1.12	278.6
Continental	0.81	2.36	(65.7)
Ming Fung	0.33	0.38	(13.2)
Hang Fung	0.96	1.48	(35.1)
Man Sang	0.24	0.61	(60.7)
The Company *(Note 3)*	**1.58**	**1.46**	**8.2**

	Implied value per Scheme Share based on the closing price of the EganaGoldpfeil Shares as at the Last Trading Date	Consolidated NAV per Share	Premium of the implied value over consolidated NAV per Share
	HK$	*HK$*	*%*
The Combo Alternative	**2.08**	**1.46**	**42.5**
The Share Alternative	**2.20**	**1.46**	**50.7**
The Cash Alternative	**1.80**	**1.46**	**23.3**

Notes:

1. Source: Bloomberg

2. The consolidated NAV per share are derived from the latest published annual reports of the respective companies.

3. We have taken the closing price of the Shares and the EganaGoldpfeil Shares on the Last Trading Date and the number of the Shares and the EganaGoldpfeil Shares in issue as at the Latest Practicable Date.

As illustrated above, the Comparable Companies were traded in the range from discount of 65.7% to premium of 278.6% over consolidated NAV per Share. Save for Peace Mark and EganaGoldpfeil, which in recent years have shown significant earnings growth, the remainder of the Comparable Companies trade at a significant discounts to their respective NAVs. Given that the earnings growth performance of the Group falls short of that of Peace Mark and EganaGoldpfeil but outperforms the remainder of the Comparable Companies, the price of the Share, being at a premium of approximately 8.2% represents by the Share Price on the Last Trading Date, prices the Shares at valuations which reflects the Group's performance.

In the absence of the Proposal and having taken into consideration the historical discount pattern of the Shares as discussed in section headed "10. Past market price compared to consolidated NAV per Share" below, in our opinion, it is unlikely that the price of the Share will trade at a significant premium over the underlying NAV. Further, both the Combo Alternative and the Share Alternative provide good opportunities for the Independent Shareholders to trade their Shares in premium to the NAV.

10. Past market price compared to consolidated NAV per Share

We have compared the Share Prices against the consolidated NAV per Share since 27 September 2004, being the date of the first results announcement during the Comparison Period. We have assumed that the consolidated NAV per Share were available to the market from the dates of release of the relevant annual and interim results announcement although such figures might not have been explicitly stated in those announcements.

Period *(Note 1)*	**Consolidated NAV per Share** *(Note 2)*	**Share price** High	**Share price** Low	**Premium/(discount) of Share Price over/(to) consolidated NAV per Share** High	**Premium/(discount) of Share Price over/(to) consolidated NAV per Share** Low
	HK$	*HK$*	*HK$*	*%*	*%*
27 September 2004 to 16 February 2005	1.61	1.56	1.14	(3.1)	(29.2)
17 February 2005 to 13 September 2005	1.62	1.69	1.25	4.3	(22.8)
14 September 2005 to 15 February 2006	1.60	1.38	1.05	(13.8)	(34.4)
16 February 2006 to the Last Trading Date	1.61	1.66	1.31	3.1	(18.6)

Notes:

1. The beginning dates of the relevant period represent the dates on which the Company released its annual or interim results.

2. The consolidated NAV per Share are calculated based on the consolidated NAV of the Company and number of Shares in issue as at the relevant year or period end date as disclosed in the Company's corresponding annual or interim reports.

Based on the analysis set out above, save for the period between 17 February 2005 and 13 September 2005, the Shares have been consistently trading at discounts to their underlying NAV per Share for the period from 27 September 2004 to the Last Trading Date. The discounts during the period under review were up to 34.4%. In view of the discounts traded throughout the periods under review, in our opinion, it is unlikely that in the absence of the Proposal such discount will become a considerable premium over the consolidated NAV per Share represented by the Combo Alternative and Share Alternative as discussed in subsection headed "9(b) Comparison of closing price to consolidated NAV per share" above.

11. Information on EganaGoldpfeil (Holdings) Limited

The Proposal involving the Share Alternative and the Combo Alternative both result in the Scheme Shareholders receiving the EganaGoldpfeil Shares in place of their holdings in the Shares. Accordingly, it is important for the Scheme Shareholders to evaluate the businesses and prospects of the EganaGoldpfeil Group.

(a) *Business operations of the EganaGoldpfeil Group*

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

EganaGoldpfeil is a leading brand builder, marketer and distributor of timepieces, jewellery, leather and lifestyle products, backed with efficient vertically integrated-manufacturing support and global operating presence in 19 major jurisdictions. Its coverage include Germany, Austria, Belgium, France, Czech Republic, Hungary, Italy, Poland, Portugal, Russia, Switzerland, the Netherlands, the United Kingdom, the PRC, Hong Kong, India, Japan, Thailand and the USA. The EganaGoldpfeil Group distributed its merchandise through retail outlets of the EganaGoldpfeil Group, independent distributors, department stores, chain stores and other retailers. Approximately 75% of the EganaGoldpfeil Group's revenue came from wholesale distribution activities and the balance of 25% from directly operated retail stores. In addition to the extensive sales network, the EganaGoldpfeil Group also has product development and production facilities with a total of 12 plants across Europe and Asia. The five Asian facilities are generally operated for production of normal seasonal collections and the seven European plants are set for creation of high-end products. As at 30 November 2005, the EganaGoldpfeil Group employed a total work force of approximately 8,000 staff.

Currently, the EganaGoldpfeil Group has a well-balanced portfolio of 44 brands (with 33 self-own and 11 under exclusive licences) selling in over 100 countries with a network of more than 13,800 points-of-sales. 75% of EganaGoldpfeil's revenue came from its 12 key focus brands, being (i) Goldpfeil and Comtesse for the luxurious sector; (ii) Salamander, JOOP!, Cerruti 1881, Junghans, Dugena, Sioux for the affordable luxury and modern classics segment; and (iii) Pierre Cardin, Esprit, PUMA and MEXX as fashion statement in the accessories segment.

EganaGoldpfeil was listed on the Stock Exchange in June 1993 followed by a separate listing of its jewellery business under the Company in July 1998. It is one of the constituent stocks of Hang Seng Composite Index Series since October 2001. Its shares are also traded on the stock exchange in Frankfurt, Germany and over-the-counter market in the USA.

(b) *Historical financial performances of the EganaGoldpfeil Group*

The following table summarises the audited consolidated result of the EganaGoldpfeil Group for the last five financial years and the unaudited consolidated results for the six-month periods ended 30 November 2004 and 2005 respectively:

Consolidated profit and loss account of EganaGoldpfeil

	For the six months ended 30 November 2005 *(Unaudited)* *HK$'000*	**For the six months ended 30 November 2004** *(Unaudited)* *HK$'000*	**For the year ended 31 May 2005** *(Audited)* *HK$'000*	**For the year ended 31 May 2004** *(Audited)* *HK$'000*	**For the year ended 31 May 2003** *(Audited)* *HK$'000*	**For the 17-month period ended 31 May 2002** *(Audited)* *HK$'000*	**For the year ended 31 December 2000** *(Audited)* *HK$'000*
Turnover	2,832,464	1,670,467	3,716,706	3,513,434	2,577,917	3,174,230	2,454,236
Cost of sales	(1,609,977)	(973,905)	(2,188,621)	(2,167,686)	(1,567,640)	(1,907,969)	(1,507,331)
Gross profit	1,222,487	696,562	1,528,085	1,345,748	1,010,277	1,266,261	946,905
Other revenues	54,107	42,420	156,006	111,495	174,174	225,541	61,742
Distribution costs	(612,003)	(340,838)	(810,515)	(683,990)	(535,779)	(771,072)	(450,214)
Administrative expenses	(423,067)	(221,996)	(554,965)	(544,604)	(451,067)	(533,210)	(379,303)
Operating profit	241,524	176,148	318,611	228,649	197,605	187,520	179,130
Finance costs	(64,285)	(38,731)	(93,507)	(91,842)	(83,254)	(112,646)	(76,231)
Profit before share of profit/(loss) of associated companies	177,239	137,417	225,104	136,807	114,351	74,874	102,899
Share of profit/(loss) of associated companies	13,633	8,885	9,468	5,088	12,267	(1,681)	20,455
Profit before taxation	190,872	146,302	234,572	141,895	126,618	73,193	123,354
Taxation	(22,727)	(8,790)	2,818	15,609	(20,727)	(10,381)	(18,774)
Profit for the year/period	168,145	137,512	237,390	157,504	105,891	62,812	104,580
Attributable to:							
the EganaGoldpfeil Shareholders	147,196	121,058	210,695	141,884	88,049	52,102	91,753
minority interests	20,949	16,454	26,695	15,620	17,842	10,710	12,827
	168,145	137,512	237,390	157,504	105,891	62,812	104,580
Dividends	36,003	30,204	75,425	52,834	45,279	15,067	2,573
Earnings per share							
Basic	11.56 cents	10.25 cents	17.51 cents	12.35 cents	7.81 cents	4.54 cents	8.59 cents
Diluted	11.33 cents	9.35 cents	16.39 cents	11.48 cents	7.73 cents	4.54 cents	8.26 cents

Analysis of profitability

	For the six months ended 30 November 2005	For the six months ended 30 November 2004	For the year ended 31 May 2005	For the year ended 31 May 2004	For the year ended 31 May 2003	For the 17-month period ended 31 May 2002	For the year ended 31 December 2000
	(Unaudited)	*(Unaudited)*	*(Audited)*	*(Audited)*	*(Audited)*	*(Audited)*	*(Audited)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Gross profit margin	43.2%	41.7%	41.1%	38.3%	39.2%	39.9%	38.6%
Operating profit margin	8.5%	10.5%	8.6%	6.5%	7.7%	5.9%	7.3%
Net profit margin	5.9%	8.2%	6.4%	4.5%	4.1%	2.0%	4.3%
Growth in net profit	22.3%	64.9%	50.7%	48.7%	138.8%	(57.6%) *(Note 1)*	(28.2%)

Note:

1. EganaGoldpfeil changed its year end date from 31 December to 31 May during the 2001/02 financial year, which resulted in a period of 17 months for the 2001/02 financial year. The growth rate for this period has been annualised.

(i) Analysis of turnover and gross profit

Set out below is an analysis of turnover (including the breakdowns into business segments and geographical segments) and its growth rate, gross profit and gross profit margin of the EganaGoldpfeil Group for the last five financial years and for the six months ended 30 November 2004 and 2005 respectively:

	For the six months ended 30 November 2005	**For the six months ended 30 November 2004**	**For the year ended 31 May 2005**	**For the year ended 31 May 2004**	**For the year ended 31 May 2003**	**For the 17-month period ended 31 May 2002**	**For the year ended 31 December 2000**
	(Unaudited)	*(Unaudited)*	*(Audited)*	*(Audited)*	*(Audited)*	*(Audited)*	*(Audited)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover by business segments							
Timepiece products	954,659	839,858	1,735,909	1,651,638	1,304,433	1,691,993	1,204,228
Jewellery products	433,124	420,668	851,352	977,633	718,382	855,738	670,648
Leather and lifestyle products	1,444,681	409,941	1,129,445	884,163	555,102	626,499	579,360
	2,832,464	1,670,467	3,716,706	3,513,434	2,577,917	3,174,230	2,454,236
Turnover by geographical segments							
Europe	2,402,241	1,330,562	2,751,139	2,431,755	1,919,295	2,524,645	1,709,307
America	112,115	92,181	156,161	130,868	120,022	227,831	160,785
Asia Pacific	318,108	247,724	809,406	950,811	538,600	421,754	584,144
	2,832,464	1,670,467	3,716,706	3,513,434	2,577,917	3,174,230	2,454,236
Growth in turnover	69.6% *(Note 1)*	9.0% *(Note 1)*	5.8%	36.3%	15.1% *(Note 2)*	(8.7%) *(Note 2)*	(3.5%)
Gross profit	1,222,487	696,562	1,528,085	1,345,748	1,010,277	1,266,261	946,905
Gross profit margin	43.2%	41.7%	41.1%	38.3%	39.2%	39.9%	38.6%

Notes:

1. The growth in turnover for the six months ended 30 November 2005 and 2004 were calculated based on the turnover of the period to that of the corresponding period in prior year.

2. The relevant figures were calculated based on the sales of approximately HK$2,578 million for the year ended 31 May 2003 and annualised sales of approximately HK$2,241 million for the 17-month period ended 31 May 2002.

As illustrated in the table above, turnover of the EganaGoldpfeil Group demonstrated a growing trend during the last five financial years and EganaGoldpfeil Group recorded a CAGR of approximately 9.9%.

During the 17-month ended 31 May 2002, the EganaGoldpfeil Group suffered from the effects of the global economic decline and in particular after the "September 11" incident. Although in November 2000 it acquired Junghans Uhren GmbH, which brought an additional revenue of HK$687 million for the 2001/02 financial year, it still recognised a decline in turnover of 8.7% compared to prior year (on annualised basis). In the 2002/03 financial year, despite the world continued to face the economic downturn and also further hit by the outbreak of SARS and the Iraq war, the EganaGoldpfeil Group achieved an encouraging 15.1% increment in turnover over the previous year (on annualised basis). The leather and lifestyle division recorded a 25.5% increment followed by the jewellery division with a 18.9% growth and the timepiece division with a 9.2% growth over the 2001/02 financial year. The management of the EganaGoldpfeil Group explained that this was due to the strategy to diversify its brand portfolio in the core business and brand pyramid covering different market segments including luxury, affordable luxury and fashion such that their customers (e.g. department stores and retail chains) were allowed to shift to other segments in response to the rapid changes in the market. The EganaGoldpfeil Group showed a strong growth of 36.3% for the year ended 31 May, 2004 on the back of the recovery from SARS and after effects of Iraq war during the year as well as the opening of the ELTC and the European headquarters of the EganaGoldpfeil Group at Frankfurt – Offenbach, Germany. The European headquarters form part of the sales and administration support center, which works together with the ELTC to support the Group's distribution activities in 25 countries in Europe, on a vertically integrated basis. The revenue contribution from the Group (i.e. jewellery division of the EganaGoldpfeil Group) increased by 36.1% while the leather and lifestyle products segment recorded a significant 59.3% growth over the prior year, which could be mainly attributable to the acquisition of Sioux GmbH. Sioux GmbH augmented the total turnover of the leather and lifestyle products by providing a full range of footwear collection to the Group. It contributed HK$210 million in that year and accounted for 24% of the revenue to the leather and lifestyle products segment. For the year ended 31 May, 2005, the EganaGoldpfeil Group achieved a modest growth of 5.8% in turnover. However, after discounting the two-month revenue contribution of approximately HK$250 million from the newly acquired Salamander, the EganaGoldpfeil Group actually recorded a slight decline in turnover of 1.3% in 2004/05 financial year. The decrease in turnover was mainly due to the reduced contribution from the Company and particularly in its Asian operations. As discussed in the section headed "3. Historical financial performances of the Group", the management of the Group attributed such decrease to the Group's strategy to focus on sales of branded products, rather than private label goods.

During the six-month period ended 30 November 2005, after excluding Salamander's contribution of HK$850 million, the EganaGoldpfeil Group accomplished an organic growth in revenue of 19%. As advised by the management of the EganaGoldpfeil Group, the increment was mainly driven by the increase in sales of leather and lifestyle products after the acquisition of Salamander, which has 55 direct operated stores in Germany and more than 120 in Eastern Europe scattering in Poland, Russia, Austria, Czech Republic, Hungary, as well as in France and Belgium. The EganaGoldpfeil Group benefited from the effect of extension of markets and points-of-sales as additional sales had been generated and boosted through the integration of EganaGoldpfeil leather brands such as Goldpfeil, Comtesse and JOOP! in Salamander shops.

The gross profit margins of the EganaGoldpfeil Group were maintained in a narrow range between 38.3% and 41.1% in the last five financial years. The gross margin of 38.3% for the year ended 31 May 2004, being the lowest among the five years, recorded by the EganaGoldpfeil Group was resulted from, as cited by its management, exploring new markets in Asia, particularly the PRC, with private label goods from local partners, which tend to yield a lower margin compared to branded merchandise. The margin improved to 41.1% from 38.3% in the 2004/05 financial year. As suggested by the management of the EganaGoldpfeil Group, it was mainly due to the better product mix (i.e. higher portion of branded products against private labels compared to prior year) and higher production efficiency.

Similar to the financial year ended 31 May 2005, as a result of higher mix of sales of branded merchandise and continuous improvement in production efficiency, the EganaGoldpfeil Group achieved a higher gross margin during the six-month period ended 30 November 2005 of 43.2%.

For the five financial years ended 31 May 2005, the turnovers of the timepieces segment, the jewellery segment and leather and lifestyle products segment had demonstrated CAGRs of 8.6%, 6.6% and 16.3% per annum respectively. The double digit growth rate achieved by the leather and lifestyle segment was mainly attributed to, as explained in above, the acquisition of Sioux GmbH during the 2003/04 financial year. With the addition of Salamander into the EganaGoldpfeil Group since March 2005, the leather and lifestyle products may continue its strong growth.

(ii) Operating results and the net profit attributable to the EganaGoldpfeil Shareholders

The EganaGoldpfeil Group's distribution costs had been relatively stable, representing around 18.3% to 21.8% of the turnover of the respective year except for the period of 17-month ended 31 May 2002 of 24.3%. The relative higher expenses for that period, as explained by the management of the EganaGoldpfeil Group, was due to the write-off of the expenditure charged in relation to the establishment of the European headquarters in Germany. The ratio of administrative expenses to turnover increased from 15.5% for the year ended 31 December 2000 to 17.5% for the year ended 31 May 2003 and decreased to only 14.9% for the year ended 31 May 2005. The management of the EganaGoldpfeil Group attributed the increase for the year ended 31 May 2003 to the expenditures relating to the integration of a number of newly acquired companies, a factory in the PRC as well as the establishment of the ELTC. Due to the continuous enhancement in logistic efficiency pursuant to the ELTC, the administrative expenses to turnover ratio reduced to only 14.9% for the year ended 31 May 2005.

The distribution costs and the administrative expenses for the 6-month period ended 30 November 2005 remained in line with those for the year ended 31 May 2005, representing 21.6% and 14.9% of the respective total turnover.

The EganaGoldpfeil Group recorded a net profit of HK$237.4 million for the year ended 31 May 2005, compared to the net profit of HK$104.6 million achieved for the year ended 31 December 2000, it represented a CAGR of approximately 20.4%. The growth of EganaGoldpfeil results is reinforced in its interim profits of HK$168.1 million, a 22.2% growth compared to the same period in the previous financial year.

Generally speaking, the EganaGoldpfeil Group has in recent years, generated significant growth in turnover through its own organic growth, a series of acquisitions as well as forming strategic alliances. The acquisitions and the strategic partnerships with distributors or retailers allowed the EganaGoldpfeil Group to quickly expand into new markets. At the same time, the EganaGoldpfeil Group continued to pursue a better product mix and more efficient delivery logistics, resulting in the improvement in margins. The successful implementation of the above strategy contributed to a significant growth in profit, which grew at an impressive CAGR of 20.4% per annum over the past five years. Compared to the net profit CAGR of 13.5% of the Group over the same period, the EganaGoldpfeil Group has been achieved significantly higher growth, due mainly to significant large scale acquisitions.

(iii) P/E multiples of EganaGoldpfeil

The EganaGoldpfeil Group reported net profits of HK$210.7 million attributable to its shareholders for the year ended 31 May 2005. The basic and diluted EPS, based on the weighted average number of the EganaGoldpfeil Shares of approximately 1.20 billion EganaGoldpfeil Shares in issue and approximately 1.29 billion EganaGoldpfeil Shares that would be in issue having been adjusted for the effects of all dilutive potential ordinary shares issuable during the year were approximately HK$0.1751 and HK$0.1639 respectively. On the above basis, the P/E multiples represented by the closing price of the EganaGoldpfeil Shares of HK$3.30 per EganaGoldpfeil Share as at the Last Trading Date would be approximately 18.8 times (based on basic EPS) and 20.1 times (based on diluted EPS) respectively.

Based on the approximately 1.28 billion EganaGoldpfeil Shares in issue as at the Latest Practicable Date, the basic and diluted EPS would be further diluted to approximately HK$0.1642 and HK$0.1537 respectively. The P/E multiples of the EganaGoldpfeil Shares as at the Last Trading Date would accordingly increase to approximately 20.1 times (based on basis EPS) and 21.5 times (based on diluted EPS) respectively.

As discussed with the management of the EganaGoldpfeil Group, one of the reasons for the relative higher P/E multiple of the EganaGoldpfeil Shares may be due to the investors anticipating of contributions from the acquisition of Salamander completed in March 2005. The 2004/05 results of the EganaGoldpfeil Group only accounted for two months revenue contribution from Salamander (amounted to HK$250 million). However, a full year contribution from Salamander in the current year will be accounted for by the EganaGoldpfeil Group in its financial statements in the 2005/06 financial year.

As discussed above, the P/E multiples of the Company, the Share Alternative and the Combo Alternative were approximately 9.6 times (based on the Share Price as at the Last Trading Date and the Shares in issue as at the Latest Practicable Date), 13.3 times and 12.6 times respectively. Compared to the P/E multiples of the EganaGoldpfeil Shares, those of the Shares are significantly lower. The exchange of the Shares for the EganaGoldpfeil Shares essentially involve exchanging shares with a lower P/E multiple for that of a higher P/E multiple. The Proposal also essentially involves an exchange of investment in the underlying business of the Group (comprising mainly the jewellery business) for an investment in the underlying business of the EganaGoldpfeil Group (which is also involved in more diversified interests including timepieces and leather and lifestyle products), details of the businesses of EganaGoldpfeil and the risk involved are discussed in sections 12 and 13 headed "Prospect of the EganaGoldpfeil Group" and "Risk factors in holding the EganaGoldpfeil Shares" respectively. However, having considered the historical turnover and profitability growth pattern and the prices at which such shares have traded on the market, we consider such pricing reflected the difference in growth achieved and represent a fair assessment of the two companies' performances over the years.

(c) *Financial positions of the EganaGoldpfeil Group*

Set out below is a summary of financial positions of the EganaGoldpfeil Group as at 30 November 2005 and 31 May 2005 respectively:

	As at 30 November 2005		**As at 31 May 2005**	
	(Unaudited)		*(Audited)*	
	HK$'000	%	*HK$'000*	%
Non-current assets				
Fixed assets and leasehold land	362,870	6.6%	358,205	7.5%
Intangible assets	676,201	12.4%	702,643	14.6%
Available-for-sale financial assets	348,040	6.4%	—	—
Investments in non-trading securities	—	—	527,876	11.0%
Others	282,129	5.2%	280,734	5.9%
	1,669,240	30.6%	1,869,458	39.0%
Current assets				
Inventories	1,266,684	23.1%	1,160,671	24.2%
Accounts and other receivables	1,523,383	27.8%	956,085	19.9%
Cash and cash equivalents	1,012,911	18.5%	812,895	16.9%
	3,802,978	69.4%	2,929,651	61.0%
Total assets	5,472,218	100.0%	4,799,109	100.0%
Less:				
Accounts payable, accruals and other payables	(1,268,289)		(1,143,089)	
Bank and other long-term borrowings	(2,135,332)		(1,723,344)	
	(3,403,621)		(2,866,433)	
Net assets	2,068,597		1,932,676	
Attributable to:				
the EganaGoldpfeil Shareholders	1,751,463		1,656,495	
minority interests	317,134		276,181	

(i) Fixed assets and leasehold land

Fixed assets principally include production equipment and facilities in the manufacture plants in Europe, Thailand and the PRC, and fixture and furniture in head offices in Hong Kong and Europe, the ELTC in Germany as well as sales and marketing offices in the 19 operating jurisdictions. They represented only approximately 6.6% and 7.5% of the total assets of the EganaGoldpfeil Group as at 30 November 2005 and 31 May 2005 respectively. Similar to the Group, for the purpose of preparation of the audited accounts, the leasehold land and buildings of the EganaGoldpfeil Group situated in Hong Kong were revalued on 31 May 2005, by an independent professional valuer on open market basis. As at 31 May 2005, the freehold and leasehold land and buildings of the EganaGoldpfeil Group were carried at a net book value of HK$62.3 million and at a valuation of HK$39.5 million respectively.

(ii) Intangible assets

Intangible assets of the EganaGoldpfeil Group comprised licences and trademarks, development costs, know-how, leasehold rights and goodwill. As at 31 May 2005, the balance of licences and trademarks were approximately HK$471.7 million, mainly comprised luxury and fashion consumer brands such as Goldpfeil, Salamander, Pierre Cardin, Junghans and Salamander. Goodwill was mainly generated from the acquisitions of JOOP! timepieces and jewellery businesses in 2003 and the purchase of additional interest in Junghans Asia (Holdings) Limited in 2004/05 financial year. Technology know-how were recognised for the expertise in production of jewels developed by G+W and manufacturing of leather and lifestyle products.

The balances of intangibles were approximately HK$676.2 million and HK$702.6 million as at 30 November 2005 and 31 May 2005 respectively. As stated in EganaGoldpfeil Group's audited accounts for the year ended 31 May 2005, goodwill and trademarks were stated at costs or fair value less accumulated impairment loss, if any, and they were subject to annual impairment tests but not amortisation, while other intangible assets, including research and development costs were subject to amortisation using a straight-line basis over the estimated useful lives. As disclosed in the audited accounts, an independent professional valuer conducted valuations of material trademarks of the EganaGoldpfeil Group as at the balance sheet date and the valuer considered the values of these trademarks were significantly higher than their carrying amounts and therefore there was no indiciation of material impairment to the intangible assets. Similar to the situation as for the Group, while the independent valuation of the EganaGoldpfeil Group's brand portfolio indicate their value being substantially higher then respective book values, as their valuations have not been performed for incorporation in this Document, such values have not been accurately compared in our analysis. However, as such values potentially represent premium to the book value for both the Group and the EganaGoldpfeil Group, we consider their effect to be broadly offsetting.

(iii) Inventories

The inventories represented approximately 23.1% and 24.2% of the EganaGoldpfeil Group's total assets as at 30 November 2005 and 31 May 2005 respectively. Inventories of the EganaGoldpfeil Group principally consisted of raw materials including watch movements and other components, raw leather materials, necklaces and precious metals and finished goods comprising of timepieces, jewellery and leather products. During the period of six month ended 30 November 2005, the inventory balance increased slightly by 9.1% from HK$1,160.7 million to HK$1,266.7 million. The increment was generally in line with the growth of turnover after excluding the revenue contribution of Salamander (Salamander was acquired by the EganaGoldpfeil Group in March 2005). The annualised inventory turnover for the six-month period was 138 days, which was similar to the 140 days (excluding the effect of Salamander acquisition) for the financial year ended 31 May 2005.

(iv) Accounts and other receivables

The accounts and other receivables of the EganaGoldpfeil Group represented approximately 27.8% and 19.9% of the EganaGoldpfeil Group's total assets as at 30 November 2005 and 31 May 2005 respectively.

The accounts receivable balance (net of provision for bad and doubtful debts) increased to HK$769.7 million as at 30 November 2005 from HK$450.0 million as at 31 May 2005. As discussed with the management of the EganaGoldpfeil Group, the increment were attributable to (i) the introduction of the timepieces and jewellery products to new customers in the jurisdictions where Salamander has a strong presence and brand awareness (e.g. Eastern Europe); (ii) strong re-orders after the major trade fairs such as EganaGoldpfeil Fair and Basel Fair; (iii) the extension of the markets and points-of-sales into other relatively new jurisdictions such as the PRC and the Middle East; and (iv) certain particularly large sales orders were received near 30 November 2005. Similar to the Group, the EganaGoldpfeil Group also grants an average credit period of 30 to 120 days to its trade customers. Majority of the outstanding balances, representing approximately 85.4% and 87.0% to the total accounts receivable as at 31 May 2005 and 30 November 2005 respectively, were due within three months from the respective balance sheet dates. The annualised debtors turnover for the six-month period ended 30 November 2005 was similar to that for the year ended 31 May 2005 which was within 65 days.

Other receivables, comprised mainly purchase deposits placed to suppliers, prepayments for fixed assets such as softwares and hardwares for enterprise resource planning, value-added tax receivables and escrow money for potential strategic alliances and investments. The balance increased from HK$956.1 million as at 31 May 2005 to HK$1,523.4 million as at 30 November 2005 due to the placement of escrow money and deposits for the potential investments and strategic alliances in the PRC and the USA by the EganaGoldpfeil Group.

(v) Cash and borrowings

Cash and cash equivalent of the EganaGoldpfeil Group represented approximately 18.5% and 16.9% of the EganaGoldpfeil Group's total assets as at 30 November 2005 and 31 May 2005 respectively. The balances mainly consisted of short-term deposits with independent third parties with maturity less than three months bearing prevailing commercial interest rates. The EganaGoldpfeil Group's cash position improved from approximately HK$562.7 million as at 31 May 2004 to HK$812.9 million as at 31 May 2005 while the borrowings (including bank and other long-term borrowings) also rose to HK$1,723.3 million from HK$1,454.8 million. The increase in borrowings was mainly used to finance the acquisition of the trademark of Salamander, the purchases of additional interests in the Company and

Junghans Asia (Holdings) Limited, as well as the investment in House of Brands, Inc., a private leather products and footwear importer based in the USA. The cash balance as at 30 November 2005 further improved to HK$1,012.9 million whereas the borrowings also increased to HK$2,135.3 million at the same time. As discussed with the management of the EganaGoldpfeil Group, the raising of additional funds were for the acquisitions of Salamander trademark, leather and footwear business, retail operations as well as general corporate funding.

The gearing ratio, being net debts to shareholders' funds, was approximately 0.64 times as at 30 November 2005, was generally in line with the Group's 0.62 times. The current ratio at the same date was approximately 1.79 times which was slightly better than the Group's approximately 2 times.

(vi) NAV and NTAV

As disclosed in the 2005/06 interim report of EganaGoldpfeil, the unaudited consolidated NAV, adjusted for the interim dividend of HK$36.0 million which has been paid out as at the Latest Practicable Date, attributable to the EganaGoldpfeil Shareholders as at 30 November 2005 was approximately HK$1,715.5 million. This represents approximately HK$1.33 per EganaGoldpfeil Share based on 1,286 million EganaGoldpfeil Shares in issue as at the Latest Practicable Date. Excluding the intangible assets of HK$676.2 million, the unaudited adjusted consolidated NTAV attributable to the EganaGoldpfeil Shareholders amounted HK$1,039.3 million as at 30 November 2005. Based on 1,286 million EganaGoldpfeil Shares in issue as at the Latest Practicable Date, the NTAV per EganaGoldpfeil Share was approximately HK$0.81. As discussed in this section above, save for the adjustment of interim dividend, no material adjustment is required on our NAV or NTAV analysis. Compared with the NAV per Share of the Group as shown in the sub-section 9(b) headed "Comparison of closing price to consolidated NAV per share", we noted that the asset backing for the Shares was higher than that for the EganaGoldpfeil Shares and could be considered to be somewhat more expensive in this regard. However, taking into account the performance of the EganaGoldpfeil Group in terms of earnings growth of approximately 20.4% per annum for the last five financial years (versus 13.5% per annum for the same period achieved by the Group), we consider the premium to be justified.

Generally, the EganaGoldpfeil Group had a comfortable financial position with significant net assets and net current assets. The rich cash reserves ensure the EganaGoldpfeil Group with a sound liquidity position and also allow it to participate in strategic investments and alliances with a higher flexibility. The increases in other current assets including receivables and inventories, demonstrated the continuous growth in the business of the EganaGoldpfeil Group.

(d) *Share price performance of EganaGoldpfeil*

The chart below illustrates the daily closing prices of the EganaGoldpfeil Shares from the Listing Date up to and including the Latest Practicable Date.

Source: Bloomberg

Since the Listing Date up to and including the Last Trading Date, the share price of the EganaGoldpfeil Shares (the "EganaGoldpfeil Share Price"), adjusted for the effect of EganaGoldpfeil Share consolidation on 5 September 2002, ranged from HK$1.17 to HK$4.35 per EganaGoldpfeil Share. The EganaGoldpfeil Share Price increased gradually since the Listing Date. When EganaGoldpfeil announced that it would issue US$15 million convertible debentures to an international investment bank, the EganaGoldpfeil Share Price surged to its historical peak of HK$4.35 on 18 February 2000. However, the increase in the EganaGoldpfeil Share Price was not sustainable, the EganaGoldpfeil Share Price dropped to HK$2.50, being the price level before the aforesaid news was announced, within 30 trading days.

The EganaGoldpfeil Share Price fluctuated within HK$1.10 to HK$2.00 during the period from early 2002 to early 2006. The EganaGoldpfeil Share Prices surged by 45% after the publication of a research report by an equity research house in January 2006 with positive opinion on the outlook of the EganaGoldpfeil Share Price. Since then, the EganaGoldpfeil Share Price fluctuation within a range of HK$2.5 and HK$3.30. In our opinion, the significant fluctuation of the EganaGoldpfeil Share Price is mainly caused by the market anticipation of strong future performance with a full year contribution from Salamander.

The EganaGoldpfeil Share Price dropped from HK$3.30 on the Last Trading Date to HK$3.15 on 11 July 2006, being the day on which tradings of the Shares and the EganaGoldpfeil Shares were resumed after publication of the Announcement. In our opinion, such decrease may be attributable to the share swap mechanism as provided in the terms of Proposal, which sets a ceiling limiting the increase in the EganaGoldpfeil Share Price. From the date of the Announcement to the Latest Practicable Date, the EganaGoldpfeil Share Price fluctuated within a range of HK$2.87 and HK$3.15. As at the Latest Practicable Date, the EganaGoldpfeil Share Price closed at HK$2.97.

(e) *Trading volume of the EganaGoldpfeil Shares*

The following table sets out the total monthly trading volume and turnover value of the EganaGoldpfeil Shares, during the Comparison Period:

	Total monthly trading volume of the EganaGoldpfeil Shares	% of the total monthly trading volume to the total issued EganaGoldpfeil Shares	% of total monthly trading volume to public float	Total monthly turnover value of the EganaGoldpfeil Shares *HK$*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 1)*
2004				
July	45,636,260	4%	5%	62,860,160
August	59,472,382	5%	6%	78,353,870
September	50,561,681	4%	5%	65,522,470
October	73,117,504	6%	8%	100,877,200
November	143,823,037	12%	15%	233,450,000
December	119,397,705	10%	12%	185,671,300
2005				
January	34,388,273	3%	3%	52,004,910
February	117,121,808	9%	12%	199,247,500
March	205,435,858	17%	21%	370,730,100
April	111,640,172	9%	11%	202,232,400
May	176,337,156	14%	17%	337,921,700
June	90,913,237	7%	9%	164,215,700
July	54,165,961	4%	5%	99,670,460
August	65,927,138	5%	6%	123,893,700
September	65,407,149	5%	6%	121,429,700
October	30,080,658	2%	3%	53,410,040
November	21,927,277	2%	2%	39,905,960
December	19,608,557	2%	2%	35,092,320
2006				
January	126,714,022	10%	12%	268,067,100
February	231,292,169	18%	23%	639,859,400
March	102,289,017	8%	10%	265,286,400
April	93,459,751	7%	9%	271,334,100
May	63,636,195	5%	6%	202,991,600
June	42,029,467	3%	4%	124,622,800
July	66,794,224	5%	8%	205,032,900
1 August to the Latest Practicable Date	39,448,065	3%	4%	116,227,952

Notes:

1. Source: Bloomberg

2. Based on the number of the EganaGoldpfeil Shares in issue as at the end of each month provided by EganaGoldpfeil. For monthly trading volume from 1 August 2006 to the Last Practicable Date, calculation is based on the number of the EganaGoldpfeil Shares in issue as at the Latest Practicable Date.

3. The public float is calculated based on the number of the EganaGoldpfeil Shares in issue as set out in note 2 above excluding the Shares held by Hans-Joerg Seeberger.

Compared with the Shares, the trading volume of the EganaGoldpfeil Shares exhibited a similar pattern with that of the Company. Although the percentage of total monthly trading volume of the EganaGoldpfeil Shares to public float was lower than that of the Company, owing the much larger market capitalisation of EganaGoldpfeil, the total monthly trading value of the EganaGoldpfeil Shares, however, was significantly higher than that of the Company.

Given the historical pattern of the total monthly trading value of the Shares and EganaGoldpfeil Shares, in our view, the Proposal represents an opportunity for the Independent Shareholders to convert their entire existing investments to another with a higher trading volume through the Share Alternative if they so wish.

12. Prospects of the EganaGoldpfeil Group

Among the three core business lines of the EganaGoldpfeil Group, namely timepiece products, jewellery products and leather and lifestyle products, the leather and lifestyle products demonstrated the strongest growth history. In the past five financial years ended 31 May 2005, turnover of leather and lifestyle products had a CAGR of approximately 16.3% compared with timepiece products' of 8.6% and jewellery products' of 5.6% respectively. The faster growth in turnover of leather and lifestyle products is mainly attributable to the acquisitions, for instance Sioux GmbH. The other two segments also exhibited growth, but at a slower pace, than the leather and lifestyle products. Still, they were profitable and provided a strong source of income to the EganaGoldpfeil Group.

The Group, through a number of acquisitions and the continuing adjustments to its product mix, had delivered a continuous growth in net profit, represented by a CAGR of approximately 13.5% per annum over the past five financial years. The EganaGoldpfeil Group, comprising the Group and the other two segments, outperformed the Group in the last five year as it had recorded a CAGR of approximately 20.4% per annum in net profit. Excluding the Group's results from those of the EganaGoldpfeil Group, the performances of the other two segments of the EganaGoldpfeil Group would be more even impressive.

We understand from the management of the EganaGoldpfeil Group that they will proactively seeking further acquisitions. In this regard, we consider the prospect of the EganaGoldpfeil Group relies heavily on the success of integrating the acquirees with the operations of the rest of the EganaGoldpfeil Group.

Overall speaking, the growth of leather and lifestyle segment is strong while the timepieces segment also generates a significant contribution. Together with the Group, the EganaGoldpfeil Group represents a more diversified business than the Group's single focus on the jewellery products.

The Directors announced that they have been informed by PIL that its holding of approximately 33.33% of the existing issued share capital of EganaGoldpfeil will be transferred to the Joint Asset and on 16 August 2006, PIL and VDCI SA (an indirect wholly-owned subsidiary of Compagnie Financière Richemont SA) entered into a sale and purchase agreement to transfer to VDCI SA 30% of the total issued share capital of the Joint Asset.

We have enquired with the management of the Group and been informed that (a) the VDCI SA Investment will not result in any change to the ultimate control of EganaGoldpfeil; (b) they are not aware of any future cooperation between EganaGoldpfeil and VDCI SA and its parent nor any intentions of VDCI SA and its parent as regards to the EganaGoldpfeil Group's operation; and (c) the

Transfer and the VDCI SA Investment are agreements between PIL and VDCI SA and EganaGoldpfeil is not a party thereto. Based on the information we have been provided, we could not identify any impact of the Transfer and the VDCI SA Investment on the business of the EganaGoldpfeil Group, accordingly, we consider their impact on the Proposal to be neutral.

As stated in the Explanatory Memorandum, the VDCI SA Investment will not result in any change to the ultimate control of EganaGoldpfeil or to the composition of the EganaGoldpfeil Board or have any material adverse impact on the operations of the EganaGoldpfeil Board. The Scheme Shareholders should note that a ruling has been obtained from the SFC that neither Joint Asset nor VDCI SA will be required to make a mandatory general offer to the shareholders of EganaGoldpfeil as a result of the Transfer and the VDCI SA Investment. Neither the Proposal nor the VDCI SA Investment are conditional on the other.

13. Risk factors in holding the EganaGoldpfeil Shares

In evaluating the prospects of the Group and the EganaGoldpfeil Group, the Shareholders should note that whilst the Group had throughout its history been part of the EganaGoldpfeil Group, the EganaGoldpfeil Group is also engaged in businesses different from that of the Group. The Group is engaged in design, manufacturing, distribution and trading of jewellery products; licensing or assignment of brand names to third parties for the design, manufacturing and/or distribution of jewellery and consumer products other than timepieces and holding of investments. On the other hand, EganaGoldpfeil is also engaged in (i) the design, assembly, manufacturing and distribution of timepieces, leather and 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, leather and lifestyle products through franchisees under the franchising arrangement and (v) holding of investments. The significantly more diversified operations of the EganaGoldpfeil Group means that the operations of the EganaGoldpfeil Group is subject to additional risks, including the industry and market risks relating to the operations of timepieces, leather and lifestyle products, that the Group is not subject to in the past and that the EganaGoldpfeil Group operates in a different sets of market dynamics as compared to that of the Group.

14. Entitlements of dividends

The EganaGoldpfeil Shares to be issued to the Scheme Shareholders shall, when issued, rank pari passu in all respects with the EganaGoldpfeil Shares in issue on the Effective Date. In particular, they will rank for the final dividend paid by EganaGoldpfeil if the Proposal becoming effective before the record date for determining entitlements to the final dividend of EganaGoldpfeil, if any, for the year ended 31 May 2006 and will not be entitled to the final dividend, if any, on their Scheme Shares. Otherwise, the Scheme Shareholders will receive the final dividend of the Company for the year ended 31 May 2006 for their Scheme Shares, if any, but will not be entitled to the final dividend for the year ended 31 May 2006 payable to the EganaGoldpfeil Shareholders, if any. The Cancellation Consideration will not include any dividends which may be declared by the Company prior to the Effective Date.

15. The Option Offer

EganaGoldpfeil will offer to purchase the Options, subject to and conditional upon the Scheme of Arrangement becoming effective, for cancellation in exchange for cash at a price of HK$1 in aggregate to each Optionholder, irrespective of the number of the Option held by such Optionholder. As at the Latest Practicable Date, there remained outstanding and exercisable an aggregate of 9,075,000 Options with an exercise price of HK$2.24 per Share.

Comparing with the Cash Alternative, being HK$1.80 per Share, the Combo Alternative, being HK2.08 per Share, and the Share Alternative, being HK$2.20 per Share, the exercise price of the Options exceeds all of the available alternatives. On this basis, the Options are considered to be "out-of-the-money" and have no intrinsic value to the Optionholder. As a result, despite the consideration for the cancellation of the Options is nominal, we consider the terms of the Option Offer to be fair and reasonable.

Optionholders should note that the Option Offer is conditional on the Scheme of Arrangement becoming effective. Should the Optionholders choose not to exercise the Option on or before four business days before the Court Meeting or not to accept the Option Offer, their Options will lapse upon the Scheme of Arrangement becoming effective. The Optionholders who wish to exercise the Options and accept the Proposal or to accept Option Offer should note the expected timetable for the Scheme of Arrangement as set out in the Document and take appropriate action accordingly.

DISCUSSION AND ANALYSIS

The Proposal

(a) The Group has in recent years achieved relatively stable growth in turnover and profits and had been able to maintain a strong gross margin for its products. Such growth has been the result of the management's successful acquisitions of brands and distribution network, expansions into new markets and improvements in product mix. We consider that prospects remain positive given the ability to leverage on the Group's growing distribution network and portfolio of product brands;

(b) the financial position of the Group remains strong with surplus liquid assets and a potentially valuable portfolio of brands;

(c) owing to the capitalisation of the Group in the market, the liquidity of the Shares and investors' interest remained consistently low;

(d) the Share Offer Price of HK$1.80 per Scheme Share represents a premium of 13.9% over the Share Price of HK$1.58 as quoted on the Last Trading Date. Such price also represents premium over the average of the closing prices of the Shares of 23.3% and 27.7% for the 30-day and the six-month periods up to and including the Last Trading Date respectively;

(e) based on the 2004/05 results, the P/E multiples implied by the Share Alternative and the Combo Alternative were 13.3 times and 12.6 times respectively, which lie within the range of the P/E multiples of the Comparable Companies of approximately 4.2 times to 20.9 times and is higher than the average of such ratio for the Comparable Companies of approximately 10.0 times;

(f) the premium of the Share Offer Price over the adjusted NAV of approximately 16.9% compares favourably to the ratios of the Shares Price to its underlying consolidated NAV per Share ranging from a premium of 4.3% to a discount of 34.4% during the period from 27 September 2004 to the Last Trading Date;

(g) we concur with the management's view that the Proposal, through which the Scheme Shareholders will be able to exchange their holding of the Shares for the EganaGoldpfeil Shares, represents an opportunity to participate in a larger organisation with strengthened operations;

(h) as the operations of the Group and the EganaGoldpfeil Group differs, where the EganaGoldpfeil Group is also engaged in the manufacture and distribution of leatherwear and timepiece products, there are risks associated with the businesses of the EganaGoldpfeil Group that are different to that of the Group;

(i) for Scheme Shareholders who would like to continue to invest in the businesses of the Group and the EganaGoldpfeil Group, electing for the Share Alternative will enable them to benefit from the future growth of the EganaGoldpfeil Group and through it, remain interested in the Group's future;

(j) the EganaGoldpfeil Shares were trade at higher P/E multiple and premium over NAV than the Shares. We are of the view that the higher valuation is commensurate with the better track record achieved by EganaGoldpfeil and the better liquidity for the EganaGoldpfeil Shares;

(k) for Scheme Shareholders who would like to cash out on the Proposal, you may wish to elect the Cash Alternative;

(l) scheme Shareholders should note that the Proposal is conditional, in the event that the Proposal is not approved and the conditions cannot be fulfilled, the Proposal will lapse and the Share Price may fall back the levels before the Proposal was announced.

The Option Offer

The exercise price of all the Options is above the Share Price prior to the Last Trading Date. The exercise price is also higher than all three alternatives. Accordingly, the Options are considered to be "out-of-the-money" and have no intrinsic value to the holders thereof. Based on the terms of the Proposal, which we consider to be fair and reasonable, despite the cancellation price for the Options is nominal, we consider the terms of the Option Offer to be fair and reasonable.

THE ALTERNATIVES

Based on the closing prices of the Shares and the EganaGoldpfeil Shares on the Last Trading Date, the Share Alternative valued each Scheme Share at HK$2.20 per share. The Share Alternative offers the highest value to the Scheme Shareholders. We consider that the drop in price of the EganaGoldpfeil Shares after the Announcement to be temporary. Accordingly, we consider that it is more appropriate to evaluate the Proposal based on the prices on the Last Trading Date.

On a similar basis, the Combo Alternative valued each Scheme Share at HK$2.08 per share and the Cash Alternative valued each Scheme Share at HK$1.80 per share. The implied value depends on the prices at which the EganaGoldpfeil Shares trade in the market.

Scheme Shareholders who are attracted by the EganaGoldpfeil Group's prospects after the Proposal has been approved may wish to consider retaining some or all of the EganaGoldpfeil Shares. Scheme Shareholders should elect the balance between the Cash Alternative and Share Alternative according to their personal financial needs.

Scheme Shareholders should note that electing for the Cash Alternative may not result in the full Cancellation Consideration receivable in cash as the Cash Alternative is only assured to the extent of 30% of their holdings. Such Scheme Shareholders may result in receiving the Combo Alternative as a result.

For Scheme Shareholders electing the Cash Alternative, it is advisable to monitor closely the trading of the Shares prior to the latest time for dealing in the Shares before suspension in trading and if a price (net of transaction expenses) higher than the Share Offer Price (based on the prevailing prices of the EganaGoldpfeil Shares) can be achieved in the market, you should consider selling the Scheme Shares in the market.

We have not considered the different tax implications on the Scheme Shareholders for electing different alternatives since these depend on their individual circumstances. Scheme Shareholders should consider their own tax position and, if in any doubt, should consult their own professional advisers.

OPINION AND RECOMMENDATION

Based on the above principal factors and reasons, we consider the terms of the Proposal and the Option Offer are fair and reasonable so far as the Independent Shareholders and the Optionholders are concerned. Accordingly, we recommend that the Independent Board Committee advises the Independent Shareholders to vote in favour of the Scheme of Arrangement and the special resolution, which will be proposed at the Court Meeting and the EGM respectively, to approve and to implement the Proposal.

We further recommend the Independent Board Committee, on the basis and with the qualifications set out above, to advise the Independent Shareholders to elect entirely the Share Alternative.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
Mei H. Leung
Deputy Chairman

This Explanatory Memorandum constitutes the statement required under Order 102, rule 21(4) (e) of the Rules of the Court of the Cayman Islands 1995 (revised).

SCHEME OF ARRANGEMENT
TO CANCEL ALL THE SCHEME SHARES IN CONSIDERATION OF EGANAGOLDPFEIL AGREEING TO OFFER HK$1.80 PER SCHEME SHARE OR ONE EGANAGOLDPFEIL SHARE FOR EVERY 1.5 SCHEME SHARES HELD

INTRODUCTION

It was jointly announced by EganaGoldpfeil and the Company on 10 July 2006 that on 6 July 2006 EganaGoldpfeil had requested the Board to put forward to (i) Scheme Shareholders a Proposal which, if implemented, would result in the Company becoming a wholly-owned subsidiary of EganaGoldpfeil; and (ii) the Optionholders, the Option Offer to cancel all outstanding Options. The Proposal will be implemented by way of a Scheme of Arrangement under Section 86 of the Companies Law. The Option Offer to the Optionholders will be conditional upon the Scheme of Arrangement becoming effective. The Board has agreed to put forward the Proposal and the Option Offer to the Scheme Shareholders and the Optionholders as it considers the Proposal and the Option Offer to be appropriate for consideration by the Scheme Shareholders and Optionholders respectively.

EganaGoldpfeil has appointed BNP Paribas Peregrine as its financial adviser in connection with the Proposal and the Option Offer.

The three independent non-executive Directors, Messrs. Charles Cho Chiu SIN, Eduardo Tang Lung LAU and Professor Zhengfu WANG, have been appointed as members of the Independent Board Committee for consideration of and making recommendations to the Independent Shareholders and the Optionholders in respect of the Proposal and the Option Offer, respectively. The Independent Board Committee has approved the appointment of Somerley to advise the Independent Board Committee in connection with the Proposal and the Option Offer.

The purpose of this document is to provide you with further information regarding the Proposal and the Option Offer and to give you notices of the Court Meeting and the EGM (and the forms of proxy, the Election Form and the Option Offer Form in relation thereto). Your attention is also drawn to the letter from the Independent Board Committee set out on pages 20 to 21, the letter from Somerley, being the independent financial adviser to the Independent Board Committee, set out on pages 22 to 63, the Explanatory Memorandum set out on pages 64 to 88 and the Scheme of Arrangement set out on pages 278 to 282.

The purpose of this Explanatory Memorandum is to explain the terms and effects of the Scheme of Arrangement and the Option Payment, and to provide Shareholders and Optionholders with other relevant information in relation to the Scheme of Arrangement and the Option Payment, and in particular, to state any material interest of the Directors, whether as Directors or as members or as creditors of the Company or otherwise.

The particular attention of the Scheme Shareholders and Optionholders is drawn to the following sections of this document: (a) a letter from the Board set out on pages 10 to 19; (b) a letter from the Independent Board Committee in connection with the Scheme of Arrangement and the Option Offer set out on pages 20 to 21; (c) a letter from Somerley set out on pages 22 to 63; (d) the Scheme of

Arrangement set out on pages 278 to 282; (e) the notice of the Court Meeting and the notice of the EGM set out on pages 283 to 287; (f) the proxy forms in respect of the Court Meeting and the EGM as enclosed with this document; (g) the Election Form as enclosed with this document; and (h) the Option Offer Form as enclosed with this document.

THE PROPOSAL

Under the Scheme of Arrangement, the Scheme Shareholders will receive from EganaGoldpfeil as Cancellation Consideration for the cancellation of their Scheme Shares:

(1) for every 1.5 Scheme Share held by the Scheme Shareholders .... the Share Alternative (being 1 EganaGoldpfeil Share); or

(2) for every Scheme Share held by the Scheme Shareholders .... the Cash Alternative (being HK$1.80 in cash, but subject to the limit on the total cash available under the Scheme of Arrangement as specified below).

Fractions of EganaGoldpfeil Shares will not be allotted to the Scheme Shareholders who elect the Share Alternative. The number of EganaGoldpfeil Shares to be issued to each Scheme Shareholder will be rounded down to the nearest whole number of EganaGoldpfeil Share.

The Scheme Shareholders may elect the Cash Alternative, the Share Alternative, or a combination of both.

Under the Cash Alternative, each Scheme Shareholder will be able to elect to receive, subject to the limitations set out below, HK$1.80 in cash for each Scheme Share. The aggregate amount of cash payable under the Cash Alternative will not exceed HK$130 million, but each Scheme Shareholder electing for the Cash Alternative will be entitled to receive the Cash Alternative in respect of up to 30% of such Shareholder's holding of Scheme Shares. Elections by Scheme Shareholders for the Cash Alternative in respect of more than 30% of their respective shareholdings will be scaled down as nearly as practicable on a pro rata basis to such excess elections, and the balance of such excess elections shall be deemed to be for the Share Alternative.

Any Scheme Shareholder who does not make a valid election for the Cash Alternative by 4:00 p.m. on 19 October, 2006 or such other date and time as the Company shall notify the Scheme Shareholders will, if the Scheme of Arrangement becomes effective, receive the Share Alternative in respect of its, his or her entire holding of Scheme Shares.

The Share Alternative values each Scheme Share at HK$2.20 on the basis of the closing price of HK$3.30 per EganaGoldpfeil Share on the Last Trading Date.

The aggregate value of the Cancellation Consideration under the Share Alternative is approximately HK$447.2 million (assuming that all Scheme Shareholders elect for the Share Alternative).

On the assumption of maximum election for the Cash Alternative, the aggregate value of the Cancellation Consideration is approximately HK$419.2 million (assuming that the Cancellation Consideration will be first satisfied by the cash portion of HK$130 million and the remaining portion of the Cancellation Consideration will be satisfied by the Share Alternative).

The EganaGoldpfeil Shares to be issued under the Share Alternative will rank pari passu with the existing issued shares in EganaGoldpfeil in all respects (including in relation to all dividends declared or paid after the Effective Date and capital and voting rights attached thereto). **Assuming the Scheme of Arrangement becomes effective, any Scheme Shareholder (other than EganaGoldpfeil Group) (i) who has not, by 4 p.m. on 19 October 2006 or such later date and time as may be notified through press announcement, delivered to the share registrar of the Company, Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, a duly completed and executed Election Form; or (ii) who has returned an Election Form which is not duly completed or executed, will receive the Share Alternative in respect of its, his or her entire holding of Scheme Shares.**

Dealings of the Shares will be suspended on 12 October 2006 pending withdrawal of the listing of the Shares on the Stock Exchange. Upon implementation of the Scheme of Arrangement, the Company will be a wholly-owned subsidiary of EganaGoldpfeil and the listing of the Shares will be withdrawn from the Stock Exchange on 24 October 2006 in compliance with Rule 6.15(2) of the Listing Rules.

Conditions of the Scheme of Arrangement are set out in the subsection headed "Conditions of the Scheme of Arrangement" in the Explanatory Memorandum on pages 67 to 68.

The Proposal will entail, on the Effective Date, the cancellation of all Scheme Shares in issue at the Record Time. As at the Latest Practicable Date, EganaGoldpfeil Group and parties acting in concert with it held 246,121,144 Shares (representing approximately 54.63% of the issued Shares) and the Scheme Shareholders held 204,431,677 Scheme Shares (representing approximately 45.37% of the issued Shares). In addition to the cancellation of 204,431,677 Scheme Shares, any further Shares that may be issued between the Latest Practicable Date and the Record Time will also be cancelled.

EganaGoldpfeil is listed on the Stock Exchange and therefore its shareholders will be afforded the protections currently given to them under the Listing Rules, the constitution of EganaGoldpfeil and the laws of the Cayman Islands.

Other than the Options, there were no other outstanding options, warrants, derivatives or convertible securities issued by the Company.

The Proposal is conditional upon the fulfillment or waiver, as applicable, of the conditions as described in the section headed "Conditions of the Scheme of Arrangement" below. Following the Effective Date, the listing of the Shares on the Stock Exchange will be withdrawn on 24 October 2006 and the Company will become a wholly-owned subsidiary of EganaGoldpfeil.

The listing of the Shares on the Stock Exchange will not be withdrawn if the Proposal does not become unconditional or lapses.

Assuming that the Scheme of Arrangement becomes effective on 23 October 2006, cheques for cash entitlements under the Cash Alternative and share certificates for EganaGoldpfeil Shares under the Share Alternative are expected to be despatched to the relevant Shareholders on or before 1 November 2006.

Settlement of the consideration to which the Shareholders (other than EganaGoldpfeil Group) are entitled under the Scheme of Arrangement will be implemented in full in accordance with the terms of the Scheme of Arrangement without regard to any lien, right of set-off, counterclaim or other analogous right to which EganaGoldpfeil may otherwise be, or claim to be, entitled against any such Shareholder.

CONDITIONS OF THE SCHEME OF ARRANGEMENT

The Scheme of Arrangement will become effective and binding on the Company, EganaGoldpfeil and all Shareholders subject to the fulfilment or waiver, as applicable, of the following conditions:

(a) the approval of the Scheme of Arrangement by a majority in number representing 75% in value of the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting provided that the Scheme of Arrangement is approved (by way of poll) by the Independent Shareholders representing not less than three-fourths in value of the Scheme Shares, present and voting at the Court Meeting either in person or by proxy, provided that the number of votes cast against the resolution to approve the Scheme of Arrangement is not more than 10% of the votes attaching to all Scheme Shares held by the Independent Shareholders, save for the Shares held by EganaGoldpfeil and parties acting in concert with it. EganaGoldpfeil and parties acting in concert with it shall, in compliance with the Takeovers Code, abstain from voting at the Court Meeting;

(b) the passing of a special resolution to approve and give effect to the reduction of the issued share capital of the Company by cancelling all of the issued Scheme Shares by a majority of at least three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at the EGM;

(c) the sanction of the Scheme of Arrangement by the Court (with or without modifications) and to the extent necessary, the Court's confirmation of the reduction of the issued share capital of the Company and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Court for registration;

(d) compliance, to the extent necessary, with the procedural requirements of Section 15 of the Companies Law and compliance with any conditions imposed under Section 16 of the Companies Law in each case in relation to the reduction of the issued share capital of the Company;

(e) all Authorisations having been obtained in connection with the Scheme of Arrangement from the Relevant Authorities in the Cayman Islands, Hong Kong, or any other relevant jurisdictions; and

(f) all Authorisations remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authorities which is not expressly provided for, in relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Scheme of Arrangement becomes effective.

In the event that condition (e) and/or condition (f) are not fulfilled, EganaGoldpfeil reserves the right to assess the materiality of such non-fulfillment and to waive the fulfilment of any such condition to such extent as it considers appropriate. Conditions (a) to (d) cannot be waived in any event. All of the above conditions will have to be fulfilled or waived, as applicable, on or before 31 December 2006 (or such other date as EganaGoldpfeil and the Company may agree and the Court may allow), otherwise the Proposal will lapse. The listing of the Shares on the Stock Exchange will not be withdrawn if the Proposal is not approved or lapses.

Assuming that the above conditions are fulfilled (or, as applicable, waived), it is expected that the Scheme of Arrangement will become effective on 23 October 2006 and the listing of the Shares on the Stock Exchange will be withdrawn on 24 October 2006 pursuant to Rule 6.15(2) of the Listing Rules.

An announcement will be made by EganaGoldpfeil and the Company if the Scheme of Arrangement lapses. Further announcements regarding the Proposal will be made as and when appropriate.

NEW EGANAGOLDPFEIL SHARES TO BE ISSUED UNDER THE SHARE ALTERNATIVE

A total of approximately 136,287,784 new EganaGoldpfeil Shares, representing approximately 10.6% of the existing issued share capital of EganaGoldpfeil, or approximately 9.6% of the enlarged issued share capital of EganaGoldpfeil, will be allotted and issued under the Proposal assuming all Scheme Shareholders elect for the Share Alternative and none of the outstanding Options shall have been exercised prior to the Record Date.

A total of approximately 142,337,784 new EganaGoldpfeil Shares, representing approximately 11.1% of the existing issued share capital of EganaGoldpfeil, or approximately 10.0% of the enlarged issued share capital of EganaGoldpfeil, will be allotted and issued under the Proposal assuming full exercise of the outstanding Options by the Optionholders prior to the Record Date and all Scheme Shareholders (including the Optionholders) elect for the Share Alternative.

The number of EganaGoldpfeil Shares to be issued to each Scheme Shareholder under the Proposal will be rounded down to the nearest figure. Cancellation Consideration in the form of fractions of EganaGoldpfeil Shares will not be issued to the Scheme Shareholders.

The new EganaGoldpfeil Shares to be issued pursuant to the Proposal will be issued and credited as fully paid up, ranking pari passu with the existing EganaGoldpfeil Shares at the date of issue, and are expected to be allotted and issued under the general mandate granted to the EganaGoldpfeil Directors at the annual general meeting of EganaGoldpfeil held on 17 November 2005, which authorised the EganaGoldpfeil Directors to allot and issue a maximum of 255,305,210 EganaGoldpfeil Shares. The general mandate has not been utilised prior to the Latest Practicable Date. EganaGoldpfeil has not undertaken any equity fund raising activities in the 12 months immediately before the Latest Practicable Date. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the new EganaGoldpfeil Shares to be issued in satisfaction of the Cancellation Consideration.

If the Proposal will be effective before the record date for determining entitlements to the final dividend of each of EganaGoldpfeil and the Company for the year ended 31 May 2006, Scheme Shareholders receiving the EganaGoldpfeil Shares under the Proposal will be entitled to the final dividend of EganaGoldpfeil Share, if any, and will not be entitled to the final dividend on their Scheme Shares. Otherwise, the Scheme Shareholders will receive the final dividend for the year ended 31 May 2006 for their Scheme Shares, but will not be entitled to the final dividend for the year ended 31 May 2006 payable to the EganaGoldpfeil Shareholders. The Cancellation Consideration will not include any dividends which may be declared by the Company prior to the Effective Date.

The Shares held by each of the parties acting in concert with EganaGoldpfeil will neither be represented nor voted at the Court Meeting but the Shares held by them will form part of the Scheme Shares.

SCHEME OF ARRANGEMENT UNDER SECTION 86 OF THE COMPANIES LAW AND COURT MEETING

According to section 86 of the Companies Law, where an arrangement is proposed between a company and its members or any class of them, the Court may, on the application of the company or any member of the company, order a meeting of the members of the company or class of members, as the case may be, to be summoned in such manner as the Court directs.

It is provided in section 86 of the Companies Law that if a majority in number representing 75% in value of the members or class of members, as the case may be, present and voting either in person or by proxy at the meeting or meetings, as the case may be, summoned as directed by the Court as aforesaid, agree to any arrangement, the arrangement shall, if sanctioned by order of the Court, be binding on all members or class of members, as the case may be, and also on the company when the order of the Court is delivered to the Registrar of Companies in the Cayman Islands for registration

THE ADDITIONAL REQUIREMENTS AS IMPOSED BY RULE 2.10 OF THE TAKEOVERS CODE

In addition to satisfying any requirements imposed by law as summarised above, but except with the consent of the Executive to dispense with compliance or strict compliance therewith, Rule 2.10 of the Takeovers Code requires that the Scheme of Arrangement may only be implemented if:

(a) the Scheme of Arrangement is approved by at least 75% of the votes attaching to the disinterested Shares that are cast either in person or by proxy by poll at a duly convened meeting of the holders of the disinterested Shares (such holders being the Independent Shareholders); and

(b) the number of votes cast against the resolution to approve the Scheme of Arrangement at such meeting is not more than 10% of the votes attaching to all disinterested Shares (namely, the Shares held by the Independent Shareholders).

As at the Latest Practicable Date, the Independent Shareholders held in aggregate 204,431,677 Shares. 10% of the votes attached to all disinterested Shares referred to paragraph (b) above therefore represent 20,443,168 Shares as at the Latest Practicable Date.

BINDING EFFECT OF THE SCHEME OF ARRANGEMENT

Notwithstanding the fact that there may be a dissenting minority, if the Scheme of Arrangement is approved at the Court Meeting by a majority in number of Scheme Shareholders present and voting in person or by proxy, representing not less than 75% in nominal value of the Shares of the Independent Shareholders, and provided that the Scheme of Arrangement is not disapproved by Independent Shareholders at the Court Meeting holding more than 10% in nominal value of all the Shares held by the Independent Shareholders, the Scheme of Arrangement will, so long as it is sanctioned by the Court and the Court order is delivered to the Registrar of Companies in the Cayman Islands for registration, become binding on the Company, and all the Shareholders.

EFFECTS OF THE SCHEME OF ARRANGEMENT

Shareholding structure of the Company

The table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon completion of the Proposal:

Shareholders	**As at the Latest Practicable Date**		**Upon completion of the Proposal (assuming no Options are exercised by the Optionholders)**		**Upon completion of the Proposal (assuming full exercise of the Options by the Optionholders)**	
	Number of Shares	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*
EganaGoldpfeil Group	246,121,144	54.63	246,121,144	100	246,121,144	100
Public	204,431,677	45.37	—	—	—	—
Total Issued Share Capital	450,552,821	100.00	246,121,144	100	246,121,144	100

As at the Latest Practicable Date, none of the parties acting in concert with the EganaGoldpfeil Group has any interests in the Shares.

Comparison of value

The Share Alternative values each Scheme Share at HK$2.20 on the basis of the closing price of HK$3.30 per EganaGoldpfeil Share on the Last Trading Date.

The premium represented by the Cancellation Consideration in the form of Share Alternative under the Proposal, which is calculated by reference to the ratio between the average closing price of the EganaGoldpfeil Shares and the average closing price of the Shares on the Last Trading Date and in various historical periods is as follows:

		As at the Last Trading Date	As at the Latest PracticableDate	Period up to the Last Trading Date			
				10 days	1 month	3 months	6 months
(A)	Average closing price of EganaGoldpfeil Shares (in HK$)	$3.30	$2.97	$3.20	$3.02	$3.02	$2.76
(B)	Average closing price of Shares (in HK$)	$1.58	$1.86	$1.56	$1.46	$1.48	$1.41
(C)	(C) = (A) / (B)	2.089 times	1.597 times	2.051 times	2.068 times	2.041 times	1.957 times
(D)	Premium = (C)/1.5 - 1	39.2%	6.5%	36.7%	37.9%	36.1%	30.5%

The Cash Alternative of HK$1.80 for each Scheme Share under the Proposal represents:

- a premium of approximately 13.9% over the closing price of HK$1.58 per Share as quoted on the Stock Exchange on the Last Trading Date;
- a premium of approximately 15.4% over the average closing price of the Shares of approximately HK$1.56 per Share during the 10 trading days prior to the Last Trading Date;
- a premium of approximately 23.3% over the average closing price of the Shares of approximately HK$1.46 per Share for the one month ended on the Last Trading Date ;
- a premium of approximately 21.6% over the average closing price of the Shares of approximately HK$1.48 per Share for the three months ended on the Last Trading Date;
- a premium of approximately 27.7% over the average closing price of the Shares of approximately HK$1.41 per Share for the six months ended on the Last Trading Date;
- a premium of approximately 14.6% over the unaudited consolidated net asset value per Share of approximately HK$1.57 as at 30 November 2005; and
- a discount of approximately 3.2% on the closing price of HK$1.86 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

Dividends

For the financial year ended 31 May 2005 and for the six months ended 30 November 2005, the Company declared dividends of HK$1.85 cents and HK$2.5 cents per Share respectively.

Financial effects of the Proposal

As at the Latest Practicable Date, the Company was held as to approximately 54.63% by EganaGoldpfeil and the assets and liabilities as well as revenues and expenses of the Company have been included in the consolidated accounts of EganaGoldpfeil and the share of net assets and profit attributable to the public shareholders of the Company have been included in the "minority interests" and "profit attributable to the minority interests" on the consolidated balance sheet and consolidated profit and loss account of EganaGoldpfeil. Save as to any goodwill which might arise as a result of and the costs incurred in relation to the implementation of the Proposal, the Proposal alone will not have any effect on the assets and liabilities of EganaGoldpfeil. Nevertheless, the "minority interests" will be reduced and to the extent the Scheme Shareholders elect for the Cash Alternative, the cash balance of EganaGoldpfeil will reduce or the bank borrowing of EganaGoldpfeil will increase, and to the extent the Scheme Shareholders elect for the Share Alternative, the shareholders' equity of EganaGoldpfeil will increase.

Following the implementation of the Proposal, the "profit attributable to the minority interests" for EganaGoldpfeil will be substantially reduced as the Company will become a wholly-owned subsidiary of EganaGoldpfeil and the Scheme Shares will be cancelled.

THE OPTION OFFER

After the Scheme of Arrangement becomes effective, EganaGoldpfeil will make the Option Offer to the Optionholders to cancel the Options granted under the Share Option Scheme. The consideration under the Option Offer will be calculated by deducting the exercise price of the Option from the Cash Alternative under the Scheme of Arrangement. As at the Latest Practicable Date, there remained outstanding and exercisable an aggregate of 9,075,000 Options with an exercise price of HK$2.24 per Share granted to the Optionholders under the Share Option Scheme. All such Options are held by employees of the Company. As the exercise price is higher than the Cash Alternative, EganaGoldpfeil will pay the Option Payment as nominal consideration for the cancellation of the Options to each Optionholder, irrespective of the number of Options held by such Optionholder.

In the event that any Options are exercised after the Latest Practicable Date and new Shares are issued pursuant to such exercise prior to the Record Date, such Shares shall constitute Scheme Shares and shall be eligible to participate in the Scheme of Arrangement.

A notice will be sent to all Optionholders, pursuant to the terms of the Share Option Scheme, informing them that if they wish to participate in the Scheme of Arrangement, they can convert any of their outstanding Options held by them by sending a notice to the Company accompanied by a remittance of the full amount of the exercise price and such notice be received by the Company no later than 4 business days prior to the Court Meeting. If no such notice is received upon expiry of such period, any unexercised Option shall lapse pursuant to the terms of the Share Option Scheme provided that the Scheme of Arrangement becomes effective.

If the Scheme of Arrangement is not sanctioned by the Court and does not become effective, all unexercised Options will remain unaffected and will be exercisable during their relevant exercisable periods pursuant to the terms of the Share Option Scheme.

After the Scheme of Arrangement becomes effective, EganaGoldpfeil will pay the Option Payment to all Optionholders who have not exercised their Options and returned a duly completed and executed Option Offer form in accordance with the instruction as stated under the paragraph headed "Action to be taken" set out on pages 85 to 88. **If the Optionholders do not lodge the duly completed and executed Option Offer Form on or before 4 p.m. on 7 November 2006 or such later date and time as may be notified to the Optionholders by EganaGoldpfeil, they will not receive the Option Payment.**

TOTAL CONSIDERATION AND CONFIRMATION OF FINANCIAL RESOURCES

Irrespective of the level of acceptance of the offers for the outstanding Options and the number of Scheme Shares electing for the Cash Alternative by all Scheme Shareholders, the total maximum cash consideration payable under the Proposal is HK$130 million, which will be financed by means of internal resources or bank borrowings of EganaGoldpfeil. EganaGoldpfeil has obtained a HK$130 million banking facility from The Hongkong and Shanghai Bank Corporation Limited. BNP Paribas Peregrine, the financial adviser to EganaGoldpfeil, is satisfied that sufficient financial resources are available to EganaGoldpfeil to implement the Scheme of Arrangement and to satisfy full acceptance of the offer for the Options.

REASONS FOR THE PROPOSAL

The liquidity in the Shares traded on the Stock Exchange has been relatively low compared to that of the EganaGoldpfeil Shares. For the 3-month period from 6 April 2006 up to the Last Trading Date, the average daily trading value (being the daily closing price multiplied by the daily trading volume) for the Shares was only approximately HK$ 1.2 million. The average trading volume of the Shares for the same period was only 800,000 Shares, which represented only approximately 0.4% of the total number of Shares in public hands. In addition, as of the Last Trading Date, the market capitalization of the Company was only HK$711.9 million which in the view of the Board may not be sufficient to retain public interest or interest from professional market researchers or analysts or from high quality institutional investors. The Proposal offers the Scheme Shareholders an opportunity to exchange their investment in EganaGoldpfeil, whose shares are considered to have higher liquidity and investors' coverage as well as growth potential.

In addition, the EganaGoldpfeil Board is of the view that the withdrawal of the listing of the Company will result in a leaner corporate structure of the EganaGoldpfeil Group and will enhance operational efficiency and management accountability.

The Cancellation Consideration (assuming all Shareholders will elect to receive the Share Alternative and none of the outstanding Options shall have been exercised prior to the Court Meeting) will result in approximately 9.6% dilution of the equity interest of the existing shareholders of EganaGoldpfeil and the EganaGoldpfeil Board is of the view that such dilution, in the context of the Proposal, is acceptable.

The Proposal is designed to give public Shareholders a consideration for their Shares which, the EganaGoldpfeil Board believes, is reasonably higher than would be justified by the Company's trading performance. This is borne out by the premium to the prevailing market price of Shares prior to the Announcement compared with the Cash Alternative being offered to Shareholders under the Scheme of Arrangement. The Proposal does, however, allow Shareholders who wish to switch their investment to EganaGoldpfeil by choosing the Share Alternative.

In arriving at the Cancellation Consideration, the EganaGoldpfeil Board has had regard to the following considerations:

- The Cancellation Consideration in the form of Share Alternative represents a value of HK$2.20 per Scheme Share on the basis of the closing price of HK$3.30 per EganaGoldpfeil Share on the Stock Exchange on the Last Trading Date, representing a premium of approximately 39.2% over the closing price of HK$1.58 per Share on the same day;

- The respective closing prices of the EganaGoldpfeil Share and the Share were HK$3.30 and HK$1.58 on the Stock Exchange on the Last Trading Date;

- EganaGoldpfeil is a listed company in Hong Kong, with a market capitalization of approximately HK$4,243.2 million, while the market capitalization of the Company amounted to approximately HK$711.9 million; and

- For the 3-month period from 6 April 2006 up the Last Trading Date, the average daily turnover value of the EganaGoldpfeil Shares and the Shares on the Stock Exchange amounted to approximately HK$9.7 million and approximately HK$1.2 million, respectively.

INFORMATION ON THE COMPANY

The Company is a company incorporated under the laws of the Cayman Islands with limited liability. It is the jewellery division of EganaGoldpfeil and was listed on the Stock Exchange on 27 July 1998. The Group is principally engaged in the design, manufacture, distribution and trading of jewellery worldwide and licensing.

A summary of the audited consolidated accounts of the Company for the years ended 31 May 2004 and 2005 is set out below:

	For the year ended 31 May 2004	**For the year ended 31 May 2005**	**Increase/ (decrease) compared to previous year**
	HK$'000	*HK$'000*	*(%)*
Turnover	977,633	851,352	(12.92)
Profit before taxation	63,479	68,894	8.53
Profit after taxation	68,496	74,552	8.84
Profit attributable to Shareholders	68,495	74,552	8.84
Basic earnings per Share (basic) *(HK$)*	22.00 cents	20.27 cents	(7.86)
Dividends	30,572	30,621	0.16

The audited consolidated net assets attributable to Shareholders were approximately HK$660 million as at 31 May 2005 and approximately HK$512 million as at 31 May 2004. The unaudited consolidated net asset attributable to Shareholders was approximately HK$706 million as at 30 November 2005.

As at the Latest Practicable Date, apart from the Options (which entitle their holders to subscribe for new Shares), the Company does not have any outstanding options, warrants, derivatives or convertible securities.

INFORMATION ON EGANAGOLDPFEIL

EganaGoldpfeil is a company incorporated under the laws of the Cayman Islands with limited liability and is the controlling shareholder of the Company. The EganaGoldpfeil Shares are also listed and traded on the Stock Exchange. It is an investment holding company. Other than the activities engaged in by the Company, EganaGoldpfeil Group is also engaged in (i) design, assembly, manufacturing and distribution of timepieces, 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, leather and lifestyle products through franchisees under the franchising arrangement and (v) holding of investments.

A summary of the audited consolidated accounts of EganaGoldpfeil Group for the years ended 31 May 2004 and 2005 is set out below:

	For the year ended 31 May 2004	**For the year ended 31 May 2005**	**Increase/ (decrease) compared to previous year**
	HK$'000	*HK$'000*	*(%)*
Turnover	3,513,434	3,716,706	5.79
Profit before taxation	141,895	234,572	65.31
Profit after taxation	157,504	237,390	50.72
Profit attributable to the EganaGoldpfeil Shareholders	141,884	210,695	48.50
Basic earnings per EganaGoldpfeil Share (basic) *(HK$)*	12.35 cents	17.51 cents	41.78
Dividends	52,834	75,425	42.76

The table below sets out the shareholding structure of EganaGoldpfeil as at the Latest Practicable Date and immediately upon completion of the Proposal assuming all Scheme Shareholders elect to receive the Share Alternative:

Shareholders	**As at the Latest Practicable Date**		**Upon completion of the Proposal (assuming no Options are exercised by the Optionholders)**		**Upon completion of the Proposal (assuming full exercise of the Options by the Optionholders)**	
	Number of EganaGoldpfeil Shares	*%*	*Number of EganaGoldpfeil Shares*	*%*	*Number of EganaGoldpfeil Shares*	*%*
Hans-Joerg Seeberger *(notes i and ii)*	478,620,553	37.22	478,620,553	33.66	478,620,553	33.51
Peter Ka Yue Lee *(notes i and ii)*	8,722,064	0.68	8,722,064	0.61	8,722,064	0.61
Michael Richard Poix *(notes i and ii)*	2,884,666	0.22	2,884,666	0.20	2,884,666	0.20
Udo Glittenberg *(note i)*	115,200	0.01	115,200	0.01	115,200	0.01
Goetz Reiner Westermeyer *(note i)*	288,000	0.02	288,000	0.02	288,000	0.02
Ho Yin Chik *(notes i and ii)*	18,464	0.00	18,464	0.00	18,464	0.00
Shunji Saeki *(note ii)*	61,640	0.00	61,640	0.00	61,640	0.00
Public Shareholders	795,099,464	61.84	931,387,248	65.49	937,437,248	65.64
Total Issued Share Capital	1,285,810,051	100	1,422,097,835	100.00	1,428,147,835	100.00

Notes:

i. Director of EganaGoldpfeil.

ii. Director of the Company.

As at the Latest Practicable Date, options granted by EganaGoldpfeil to the EganaGoldpfeil Directors and the employees of the EganaGoldpfeil Group under its share option scheme adopted on 31 May 1993 entitle them to subscribe a total of 44,819,200 EganaGoldpfeil Shares.

As at the Latest Practicable Date, apart from the above options (which entitle their holders to subscribe for new EganaGoldpfeil Shares), EganaGoldpfeil does not have any outstanding options, warrants, derivatives or convertible securities.

Save as disclosed in this section and in the section headed "Disclosure of Interests" in Appendix III, as at the Latest Practicable Date, none of the EganaGoldpfeil Directors or persons acting in concert with any one of them owned or controlled any EganaGoldpfeil Shares or convertible securities, warrants, options or derivatives in respect of any EganaGoldpfeil Shares.

Save for the Proposal itself, there are no arrangements (whether by way of option, indemnity or otherwise) of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between EganaGoldpfeil or any party acting in concert with it and any other party in relation to the shares of EganaGoldpfeil or the Company which might be material to the Proposal.

VDCI SA Investment

EganaGoldpfeil has been informed by PIL that (a) PIL will transfer 428,576,000 EganaGoldpfeil Shares to Joint Asset, representing approximately 33.33% of the existing issued share capital of EganaGoldpfeil, in exchange for new shares to be issued by Joint Asset to PIL representing 100% of the issued share capital of Joint Asset; and (b) on 16 August 2006, PIL and VDCI SA (an indirect wholly-owned subsidiary of Compagnie Financière Richemont SA) have entered into a sale and purchase agreement to transfer to VDCI SA 30% of the total issued share capital of Joint Asset. As at the Latest Practicable Date, PIL held a total of 478,620,553 EganaGoldpfeil Shares, representing approximately 37.22% of the existing issued share capital of EganaGoldpfeil. Following such Transfer, Joint Asset will become a controlling shareholder of EganaGoldpfeil and PIL will remain directly and indirectly interested in 478,620,553 EganaGoldpfeil Shares. PIL will, on completion of the VDCI SA Investment, enter into the Joint Asset Shareholders Agreement with VDCI SA.

Neither the Scheme of Arrangement nor the VDCI SA Investment is conditional on the other.

Completion of the VDCI SA Investment is scheduled to take place on or before 4 September 2006. On completion of the VDCI SA Investment, PIL, Joint Asset and VDCI SA will enter into the Joint Asset Shareholders Agreement governing the relationship between PIL and VDCI SA as shareholders of Joint Asset. The EganaGoldpfeil Board has been informed by PIL that the principal terms of the Joint Asset Shareholders Agreement include (i) the board of Joint Asset shall comprise three directors, two of whom shall be appointed by PIL and one shall be appointed by VDCI SA; (ii) unanimous consent is required for a number of reserved matters including, any disposals of the EganaGoldpfeil Shares held by Joint Asset and the exercise of Joint Asset's voting rights in respect of EganaGoldpfeil Shares held by it in relation to transactions that are required to be approved by the EganaGoldpfeil Shareholders under Chapters 14 and 14A of the Listing Rules. If there is a disagreement between PIL and VDCI SA in respect of other non-reserved matters, Joint Asset shall exercise its voting rights attaching to the EganaGoldpfeil Shares held by it in respect of such matter at the direction of PIL and VDCI SA in proportion to their respective shareholding in Joint Asset; (iii) pre-emptive and anti-dilution rights over new share issues by EganaGoldpfeil; (iv) the EganaGoldpfeil Shares held by Joint Asset will be distributed to PIL and VDCI SA pro rata to their respective shareholding in Joint Asset in the event of the termination of the arrangements in relation to Joint Asset; (v) if PIL disposes its shares in Joint Asset (or the EganaGoldpfeil Shares held by it which have been distributed to it on termination of the Joint Asset Shareholders Agreement) to a third party purchaser, PIL can require VDCI SA to sell to that purchaser its shares in Joint Asset or the EganaGoldpfeil Shares held by it (as the case may be) or, if requested by VDCI SA, PIL has to procure that the purchaser purchases those shares in Joint Asset held by VDCI SA (or, if appropriate, the EganaGoldpfeil Shares held by it which have been distributed to it on termination of the Joint Asset Shareholders Agreement) as well; (vi) PIL and VDCI SA will undertake that (a) they will not acquire EganaGoldpfeil Shares or voting rights in EganaGoldpfeil or conduct any other action which would trigger a mandatory general obligation under the Takeovers Code on the part of Joint Asset, PIL, VDCI SA and/or any of their respective associates; and (b) they will not do anything which will make VDCI SA a connected person of EganaGoldpfeil under the Listing Rules.

PIL has been informed by VDCI SA that it does not hold any Shares or EganaGoldpfeil Shares as at the Latest Practicable Date.

Both PIL and Joint Asset are and will continue to be substantial shareholders of EganaGoldpfeil and thus are connected persons of EganaGoldpfeil.

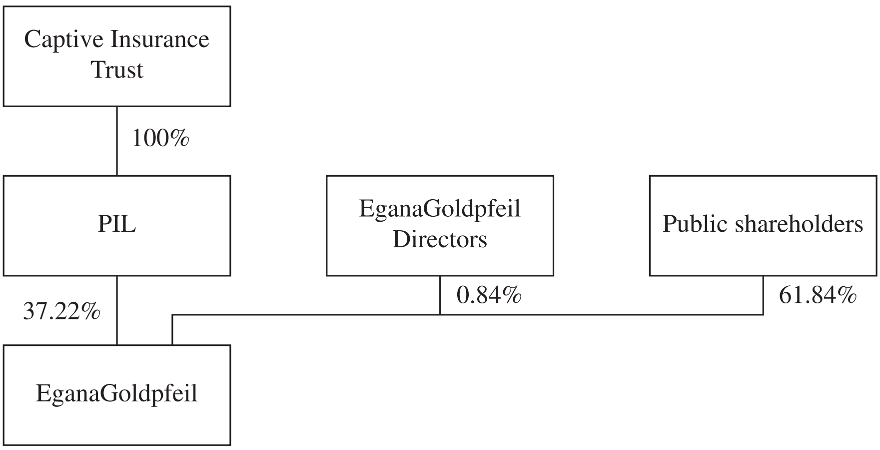
Following completion of the VDCI SA Investment, VDCI SA will not be an associate of Joint Asset as VDCI SA will only be interested in 30% of the shares of Joint Asset. In addition, based on the shareholdings of VDCI SA in Joint Asset, and the shareholding of Joint Asset in EganaGoldpfeil, VDCI SA will be able to direct the exercise of voting rights in respect of less than 10% of the total voting rights attaching to all EganaGoldpfeil Shares when there is disagreement in respect of the non-reserved matters. VDCI SA will therefore not be a Connected Person of the Company.

A ruling has been obtained from the SFC that neither Joint Asset nor VDCI SA will be required to make a mandatory general offer to the shareholders of EganaGoldpfeil as a result of the Transfer and the VDCI SA Investment.

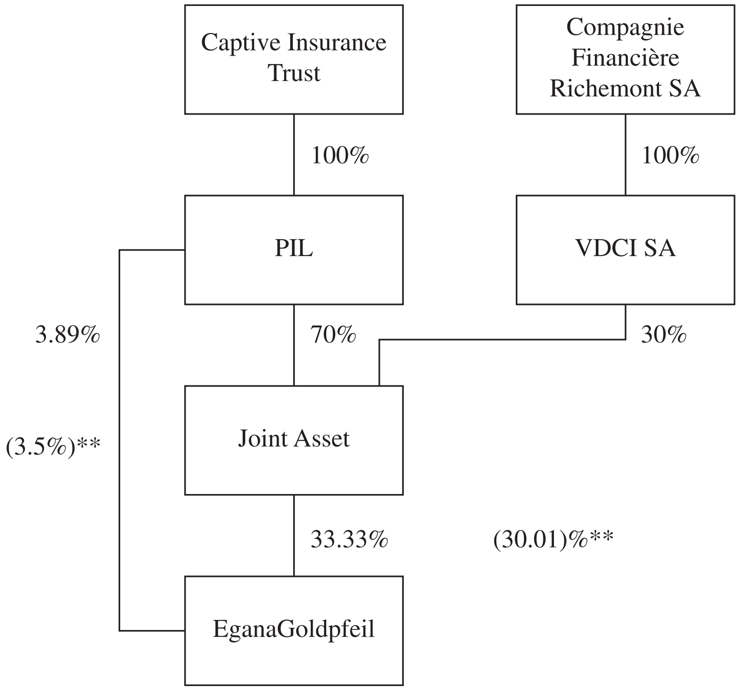
The EganaGoldpfeil Board has been advised by PIL that the introduction of Joint Asset as a new controlling shareholder and the VDCI SA Investment will not result in any change to the ultimate control of EganaGoldpfeil or to the composition of the EganaGoldpfeil Board or have any material adverse impact on the operations of EganaGoldpfeil Group.

The EganaGoldpfeil Board does not believe that the VDCI SA Investment will result in a change of control of EganaGoldpfeil.

The shareholding structure of EganaGoldpfeil before the VDCI SA Investment and the Proposal is as follows:



The shareholding structure of EganaGoldpfeil after the VDCI SA Investment but before the Proposal is as follows:



** figures in the bracket represent the shareholding of Joint Asset and the direct shareholding of PIL in EganaGoldpfeil assuming that all Optionholders exercise the outstanding Options prior to the Court Meeting under the Proposal for the purposes of ascertaining their entitlements under the Proposal and all Scheme Shareholders choose to receive EganaGoldpfeil Shares.

FUTURE INTENTIONS OF EGANAGOLDPFEIL

It is the intention of EganaGoldpfeil to maintain the existing businesses of the Group following the Scheme of Arrangement becoming effective. It does not intend to introduce any major changes to the existing operating and management structure of the Group or to make any changes to existing senior management or to discontinue the employment of any of the employees of the Group. Consequently, there should be no material change to the Group's businesses or personnel as a result of the Scheme of Arrangement becoming effective.

Upon the Scheme of Arrangement becoming effective, it is intended to withdraw the listing of the Shares on the Stock Exchange and the Company will become a wholly-owned subsidiary of EganaGoldpfeil. The listing of the Shares on the Stock Exchange will not be withdrawn if the Proposal is not approved or lapses.

INTERESTS OF DIRECTORS IN THE SCHEME OF ARRANGEMENT AND EFFECTS THEREON

EganaGoldpfeil and parties acting in concert with it

As at the Latest Practicable Date, EganaGoldpfeil and parties acting in concert with it held 246,121,144 Shares (representing approximately 54.63% of the issued share capital of the Company). Messrs. Hans-Joerg SEEBERGER, Peter Ka Yue LEE, Michael Richard POIX and Ho Yin CHIK, being executive directors of EganaGoldpfeil and the Company, previously owned an aggregate of 2,609,002 Shares. They unconditionally and irrevocably donated to independent charitable organisations in Hong Kong all such Shares prior to the making of the Proposal on 6 July 2006. The donation of such Shares has been completed. Other than the above, EganaGoldpfeil and parties acting in concert with it do not hold any other securities in the Company. Shares beneficially owned by the EganaGoldpfeil Group will not form part of the Scheme Shares and are not entitled to vote at the Court Meeting.

The following are the parties acting in concert with EganaGoldpfeil or presumed to be acting in concert with EganaGoldpfeil as at the Latest Practicable Date:

(1) Mr. Hans-Joerg SEEBERGER who is a director of both the Company and EganaGoldpfeil;

(2) Mr. Peter Ka Yue LEE who is a director of both the Company and EganaGoldpfeil;

(3) Mr. Michael Richard POIX who is a director of both the Company and EganaGoldpfeil;

(4) Mr. Ho Yin CHIK who is a director of both the Company and EganaGoldpfeil;

(5) Mr. David Wai Kwong WONG who is a director of both the Company and EganaGoldpfeil;

(6) PIL which is the registered shareholder of 478,620,553 EganaGoldpfeil Shares beneficially owned by the Captive Insurance Trust; and

(7) Joshua Limited, a company which was wholly-owned by Mr. Peter Ka Yue LEE.

As at the Latest Practicable Date, the Scheme Shareholders held 204,431,677 Scheme Shares. The Scheme Shareholders will be entitled to vote at the Court Meeting but those Scheme Shareholders who are acting in concert with EganaGoldpfeil will abstain from voting at the Court Meeting. None of the parties acting in concert with the EganaGoldpfeil Group has any interests in the Shares as at the Latest Practicable Date.

As EganaGoldpfeil is the controlling shareholder of the Company and as it has requested that the Board put forward to the Shareholders the Proposal, EganaGoldpfeil and parties acting in concert with it have an interest in the Scheme of Arrangement that is different from other Shareholders. EganaGoldpfeil and parties acting in concert with it will abstain from voting at the Court Meeting as required under the Takeovers Code.

As at the Latest Practicable Date, none of the Directors are interested in the Shares or other securities in the Company. The Directors have confirmed with the Board that they are not creditors of the Company.

Neither EganaGoldpfeil nor any party acting in concert with it has dealt in the Shares in the six months immediately preceding the date of the Announcement.

Save for the Proposal itself, there are no arrangements (whether by way of option, indemnity or otherwise) of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between EganaGoldpfeil or any party acting in concert with it and any other party in relation to the shares of EganaGoldpfeil or the Company which might be material to the Proposal.

Donation of Shares by the Common Directors and cancellation of Options held by the Common Directors

Prior to the making of the Proposal, the Common Directors (other than Mr. David Wai Kwong WONG who does not have any shareholding in the Company) held a total of 2,609,002 Shares but such Common Directors have unconditionally and irrevocably donated to independent charitable organisations in Hong Kong all such Shares held by them on 6 July 2006. The donation of such Shares has been completed. On 6 July, 2006, those Common Directors (being Mr. Hans-Joerg SEEBERGER, Peter Ka Yue LEE and Michael Richard POIX) who have been granted Options also agreed to the Company cancelling Options granted to them at no consideration with immediate effect. Accordingly, they will not make any financial gain out of the implementation of the Proposal.

As Common Directors have donated all their beneficial interest in the Shares (if any) prior to the making of the Proposal, there will not be any potential conflict of interest under Rule 2.4 of the Takeovers Code.

SHARE CERTIFICATES, DEALINGS AND LISTING

Upon the Scheme of Arrangement becoming effective, all the Scheme Shares will be cancelled and extinguished. Share certificates for Shares held by the Scheme Shareholders will thereafter cease to have effect as documents of, or evidence of, title. The Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange. Dealings in the Shares on the Stock Exchange are expected to cease after 4:00 p.m. on 11 October 2006, and the listing of the Shares on the Stock Exchange is expected to be withdrawn at 9:30 a.m. on 24 October 2006 pursuant to Rule 6.15(2) of the Listing Rules. The Shareholders will be notified by way of a press announcement of the exact date on which the Scheme of Arrangement and the withdrawal of the listing of the Shares on the Stock Exchange will become effective. The Scheme of Arrangement will lapse if it does not become effective on or before 31 December 2006 (or such later date as EganaGoldpfeil and the Company may agree and the Court may allow), and the Shareholders will be notified by way of a press announcement accordingly.

The listing of the Shares on the Stock Exchange will not be withdrawn if the Proposal does not become unconditional or lapses.

REGISTRATION, PAYMENT AND DESPATCH OF SHARE CERTIFICATES OF EGANAGOLDPFEIL

It is proposed to close the register of members of the Company from 8 September 2006 to 11 September 2006 (both days inclusive), in order to establish entitlements of Shareholders to attend and vote at the Court Meeting and the EGM. Shareholders should ensure that their Shares are registered or lodged for registration in their names or in the name(s) of their nominees at or with Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, before the register of members of the Company is closed. The latest time for lodging transfers before the register of members of the Company is closed is 4:00 p.m. on 7 September 2006.

In the event that the Scheme of Arrangement becomes effective, payment of the consideration for the Shares will be made to the Shareholders in accordance with the timetable and the terms of the Scheme of Arrangement. All existing certificates representing the Shares will cease to have effect as documents or evidence of title as from 23 October 2006. It is further proposed that the register of members of the Company will be closed from 17 October 2006 to 23 October 2006 (or such other date as may be notified to the Shareholders by way of a press announcement) in order to establish entitlements under the Scheme of Arrangement. **Shareholders should ensure that the relevant transfer documentation for their Shares is lodged for registration before the register of members of the Company is closed.** The share registrar of the Company is Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

Assuming that the Scheme of Arrangement becomes effective on 23 October 2006 (Hong Kong time), (i) cheques for cash entitlements to those entitled to the Cash Alternative, (ii) share certificates for EganaGoldpfeil Shares to those who elect for the Share Alternative, (iii) cheques for cash entitlements and share certificates for EganaGoldpfeil Shares for those who elect for a combination for both the Cash Alternative and the Share Alternative under the Scheme of Arrangement are expected to be despatched on or before 1 November 2006. Payments for cash entitlements to the Optionholders who accept the Option Offer, are expected to be made on or before 17 November 2006. In particular, share certificates for EganaGoldpfeil Shares and cheques will be sent to the persons entitled thereto at their respective registered addresses or, in the case of joint holders, to the registered address of that joint holder whose name stands first in such register in respect of the joint holding. All such share certificates and cheques will be sent at the risk of the person(s) entitled thereto and EganaGoldpfeil, the Company and BNP Paribas Peregrine or any of them will not be responsible for any loss or delay in despatch.

Shareholders are recommended to consult their professional advisers if they are in doubt as to the above procedures.

On or after the day being six calendar months after the posting of such cheques, EganaGoldpfeil shall have the right to cancel or countermand payment of any such cheque which has not been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit account in the Company's name with a licensed bank in Hong Kong selected by the Company.

The Company shall hold such monies until the expiry of six years from the Effective Date and shall, prior to such date, make payments thereout of the sums, together with interest thereon, to persons who satisfy the Company that they are respectively entitled thereto and that the cheques of which they are payees have not been cashed. On the expiry of six years from the Effective Date, EganaGoldpfeil shall be released from any further obligation to make any payments under the Scheme of Arrangement and the Company shall thereafter transfer to EganaGoldpfeil the balance (if any) of the sums then standing to the credit of the deposit account in the Company's name, including accrued interest subject, if applicable, to the deduction of any interest or withholding or other tax or any other deduction required by law and subject to the deduction of any expenses.

Any certificates of shares in EganaGoldpfeil posted to the Shareholders pursuant to the Scheme of Arrangement which have been returned or undelivered will be cancelled. The share registrar of EganaGoldpfeil may at any time thereafter issue new share certificates in respect of such shares in EganaGoldpfeil to those Shareholders who can establish their entitlements to its satisfaction and transfer to them all accrued entitlements from the original date of allotment or transfer, as the case may be, in respect of such shares in EganaGoldpfeil, subject to the payment of any expenses.

Settlement of the Cash Alternative and the Option Payment under the Scheme of Arrangement and the Option Offer will be implemented in full in accordance with the terms of the Scheme of Arrangement and the Option Offer respectively, without regard to any lien, right of set-off, counterclaim or other analogous right to which EganaGoldpfeil may otherwise be, or claim to be, entitled against such Scheme Shareholder or Optionholder.

OVERSEAS SCHEME SHAREHOLDERS AND OPTIONHOLDERS

The Scheme of Arrangement and the Option Offer to, as the case may be, the Scheme Shareholders and Optionholders who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions which such Scheme Shareholders and Optionholders are located. Such Scheme Shareholders and Optionholders should inform themselves about and observe any applicable legal and regulatory requirements. It is the responsibility of any overseas Scheme Shareholder wishing to elect for the Share Alternative to satisfy itself as the full observance of the laws of the relevant jurisdiction in connection therewith, including obtaining any governmental, exchange control or other consents which may be required, or compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction.

TAXATION

As the Scheme of Arrangement does not involve the sale and purchase of Hong Kong stock, no stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Shares upon the Scheme of Arrangement becoming effective.

For the same reason, the acceptance of the Option Offer and the payment of the Option Payment for the cancellation of the Options does not involve the sale and purchase of Hong Kong stock, stamp duty will not be payable in relation to the Option Payment.

Shareholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of the Scheme of Arrangement and, in particular, whether the receipt of the Cash Alternative would make such Shareholder liable to taxation in Hong Kong or in other jurisdictions.

COURT MEETING AND EGM

In accordance with the directions of the Court, the Court Meeting will be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme of Arrangement (with or without modifications). The Scheme of Arrangement will be subject to the approval by the Scheme Shareholders at the Court Meeting (in which EganaGoldpfeil and parties acting in concert with it will, in compliance with the Takeovers Code, abstain from voting) in the manner referred to in the paragraph headed "Conditions of the Scheme of Arrangement" in this Explanatory Memorandum. The EGM will be held immediately following the Court Meeting for the purpose of considering and, if thought fit, passing a special resolution to approve the capital reduction resulting from the cancellation of the Scheme Shares.

Shareholders are advised to have their names entered in the register of members of the Company as soon as possible for, inter alia, the following reasons:

(a) to enable Shareholders (other than EganaGoldpfeil and parties acting in concert with it) to attend the meeting as required under section 86 of the Companies Law in their capacity as members of the Company or to be represented by proxies to be appointed by them;

(b) to enable the Company to properly classify members of the Company for the purposes of section 86 of the Companies Law; and

(c) to enable the Company and EganaGoldpfeil to make arrangements to effect (i) delivery of documents of title in respect of EganaGoldpfeil Shares to the Scheme Shareholders who will receive EganaGoldpfeil Shares and/or (ii) payments by way of the delivery of cheques to the Scheme Shareholders who will receive the Cash Alternative. All deliveries of cheques required for making payment in respect of the EganaGoldpfeil Shares, as aforesaid, shall be effected by duly posting the same in pre-paid envelopes addressed to the persons respectively entitled thereto at their respective addresses as appearing in the register of members of the Company at the Record Time.

The resolution of the Court Meeting to approve the Scheme of Arrangement (with or without modifications) will be passed if a majority in number of the Scheme Shareholders (present in person or by proxy) representing not less than 75% in value of the Scheme Shares being voted, vote in favour of the resolution. In addition, the Scheme of Arrangement will, in compliance with Rule 2.10 of the Takeovers Code, only be implemented if the Scheme of Arrangement is approved by Independent Shareholders representing not less than 75% in value of the Scheme Shares present and voting at the Court Meeting either in person or by proxy by poll provided that the number of votes cast against the resolution to approve the Scheme of Arrangement at the Court Meeting is not more than 10% of the votes attaching to all disinterested Scheme Shares held by the Independent Shareholders (namely, the Scheme Shares held by the Scheme Shareholders other than EganaGoldpfeil and parties acting in concert with it).

The special resolution of the EGM will be passed provided that it is approved by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting, in person or by proxy, at the EGM (and consequently the vote will be conducted by poll). All Shareholders will be entitled to attend and vote on such special resolution at the EGM. EganaGoldpfeil Group has indicated that if the Scheme of Arrangement is approved at the Court Meeting, they will vote in favour of the special resolution to be proposed at the EGM.

No person shall be recognised by the Company as holding any Shares upon any trust. Any Beneficial Owner whose Shares are registered in the name of a Registered Owner should contact such Registered Owner to give instructions to and/or to make arrangements with such Registered Owner as to the manner in which the Shares beneficially owned by the Beneficial Owner should be voted at the Court Meeting and/or the EGM. A Beneficial Owner who wishes to attend the Court Meeting and/or the EGM personally should contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable the Beneficial Owner to attend and vote at the Court Meeting and/or the EGM and for such purpose the Registered Owner may appoint the Beneficial Owner as its proxy. The appointment of a proxy by the Registered Owner at the relevant Court Meeting and/or the EGM shall be in accordance with all relevant provisions in the articles of association of the Company. In the case of the appointment of a proxy by the Registered Owner, the relevant forms of proxy shall be completed and signed by the Registered Owner and shall be lodged in the manner and before the latest time for lodging the relevant forms of proxy as more particularly set out in this document.

Any Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited must, unless such Beneficial Owner is an investor participant, contact their broker, custodian, nominee or other relevant person who is, or has in turn deposited such Shares with, the other CCASS participant regarding voting instructions to be given to such persons if they wish to vote in respect of the Scheme of Arrangement. The procedure for voting in respect of the Scheme of Arrangement by the investor participants and the other CCASS participants with respect to Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the "General Rules of CCASS" and the "CCASS Operational Procedures" in effect from time to time.

Notice of Court Meeting is set out on pages 283 to 284. A pink form of proxy in respect of the Court Meeting is enclosed with this document. The Court Meeting will be held on 11 September 2006 at the time specified in the notice of the Court Meeting in Hong Kong.

Notice of EGM is set out on pages 285 to 287. A white form of proxy in respect of the EGM is enclosed with this document. The EGM will be held at 10:30 a.m. (or as soon thereafter as the Court Meeting convened for the same day and place shall have been concluded or adjourned) on 11 September 2006 in Hong Kong.

ACTION TO BE TAKEN

Shareholders

A pink form of proxy for use at the Court Meeting and a white form of proxy for use at the EGM are enclosed with this document.

Whether or not you are able to attend the Court Meeting and/or the EGM or any adjournment thereof, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting, and the enclosed white form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them with the Company at its principal place of business in Hong Kong at Block C6, 12 Floor, Hong Kong Industrial Centre, 489-491 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong, together with any power of attorney or other authority (if any) under which it is signed or a certified copy thereof, as soon as possible but in any event not later than the respective times and dates as stated under this paragraph headed "Action to be taken". The pink form of proxy in respect of the Court Meeting and the white form of proxy in respect of the EGM may also be returned by facsimile at number (852) 2742 2006 (marked for the attention of "the Company Secretary") not later than the respective time and date stated in this paragraph headed "Action to be taken". If the pink form of proxy for use at the court meeting is not so lodged with the Company at its principal place of business, it may still be handed to the chairman of the Court Meeting at the Court Meeting, but the white form of proxy for use at the EGM must be lodged no later than 48 hours before the time of the EGM or adjourned EGM. Completion and return of the form of proxy for the Court Meeting or the EGM will not preclude you from attending and voting in person at the relevant meeting. In such event, the returned form of proxy will be deemed to have been revoked.

An announcement will be made by the Company on or about 12 September 2006 in relation to the results of the Court Meeting and the EGM. In addition, an announcement will be made on or about 24 October 2006 in relation to the results of the hearing of the petition to sanction the Scheme of Arrangement by the Court and, if the Scheme of Arrangement is sanctioned, the Effective Date and the date of the withdrawal of the listing of the Shares on the Stock Exchange. Based on the current timetable, the latest time for dealing in the Shares will be 4:00 p.m. on 11 October 2006 and the Record Time will be 4:00 p.m. on 17 October 2006.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting, you will still be bound by the outcome of such Court Meeting. You are therefore strongly urged to attend and vote at the Court Meeting in person or by proxy.

For the purpose of determining the entitlements of the Scheme Shareholders to attend and vote at the Court Meeting and the EGM, the register of members of the Company will be closed from 8 September 2006 to 11 September 2006 (both days inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with Secretaries Limited, the share registrar of the Company, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 7 September 2006.

Scheme Shareholders (other than EganaGoldpfeil Group) must complete and execute an Election Form in accordance with the instructions printed on it in order to elect the Cash Alternative in respect of the Shares registered under their names at the Record Time, and deliver the duly completed and executed Election Form to the share registrar of the Company, Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on 19 October 2006 or such later date and time as may be notified through press announcement. No acknowledgement of receipt of any Election Form will be given.

Assuming the Scheme of Arrangement will become effective on 23 October 2006, any Scheme Shareholder (other than EganaGoldpfeil Group) (i) who has not returned an Election Form as described above or (ii) who has returned an Election Form which is not duly completed or executed in accordance with the terms of the Scheme of Arrangement will receive the Share Alternative.

If you have sold or transferred all of your Shares in the Company, you should at once hand this document and the Election Form to the purchaser or the transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee. Copies of the Election Form can also be obtained from the Company's share registrar, Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong at any time before the Record Time.

Any Shareholder (other than EganaGoldpfeil Group) who holds Shares as a nominee, trustee or registered owner in any other capacity will not be treated differently from any other Registered Owner. Any Beneficial Owner should make arrangements with his, her or its nominee, trustee or Registered Owner in relation to the Scheme of Arrangement and the election of the Share Alternative or Cash Alternative, and may consider whether it wishes to arrange for the registration of the relevant Shares in the name of the Beneficial Owner prior to the Record Time.

The relevant Shareholders should also note the instructions and terms printed on the Election Form enclosed with this document.

Optionholders

An Option Offer Form is enclosed with this document. Any Optionholders who wish to accept the Option Offer must complete and return the duly completed and executed Option Offer Form together with the relevant certificate(s) or other document evidencing the grant of the Options to, him or her and, any documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) for the aggregate principal amount of outstanding Options which the Optionholder holds by 4:00 p.m. on 7 November 2006 or such later date and time as may be notified to the Optionholders by EganaGoldpfeil, delivered to the Company at its principal place of business in Hong Kong at Block C6, 12th Floor, Hong Kong Industrial Centre,

489-491 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong. No acknowledgement of receipt of any Option Offer Form or other document evidencing the grant of the Options or other documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given. The consideration payable for the Option Offer is determined based on the consideration payable under the Cash Alternative and the exercise price of the Options. Optionholder should be aware that after the Scheme of Arrangement becomes effective, the Options will no longer be convertible into Shares and will lapse. If the Optionholders do not lodge the duly completed and executed Option Offer Form at or before 4:00 p.m. on 7 November 2006 or such later date and time as may be notified to the Optionholders by EganaGoldpfeil, they will not receive the Option Payment.

The Optionholders should also note the instructions printed on the Option Offer Form.

SCHEME SHAREHOLDERS (INCLUDING ANY BENEFICIAL OWNER OF SUCH SCHEME SHARES THAT GIVE VOTING INSTRUCTIONS TO A CUSTODIAN OR CLEARING HOUSE THAT SUBSEQUENTLY VOTES AT THE COURT MEETING) SHOULD NOTE THAT THEY ARE ENTITLED TO APPEAR BY PERSON OR BY COUNSEL AT THE COURT HEARING ON 20 OCTOBER 2006 AT WHICH THE COMPANY WILL SEEK THE SANCTION OF THE SCHEME OF ARRANGEMENT.

COSTS OF THE SCHEME OF ARRANGEMENT

In the event that the Scheme of Arrangement becomes effective, the costs of the Scheme of Arrangement will be borne by EganaGoldpfeil. The costs of the Scheme of Arrangement and of its implementation are expected to amount to approximately HK$10 million. These primarily consist of fees for financial advisers, legal advisers, accounting, printing and other related charges.

In the event that the Scheme of Arrangement is not approved at the relevant Shareholders' meeting(s) or does not become unconditional, all the expenses incurred by the Company in connection with the Scheme of Arrangement shall be borne by EganaGoldpfeil.

RECOMMENDATION

Your attention is drawn to the following:

(i) the paragraph headed "Recommendation" in the "Letter from the Board" set out on pages 10 to 19;

(ii) the letter from the Independent Board Committee set out on pages 20 to 21; and

(iii) the letter from Somerley set out on pages 22 to 63.

FURTHER INFORMATION

Further information is set out in the appendices to, and elsewhere in, this document, all of which form part of this Explanatory Memorandum.

1. FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated results of the Group for each of the three financial years ended 31st May, 2003, 2004 and 2005 extracted from the 2002/2003, 2003/2004 and 2004/2005 annual reports of the Company and unaudited consolidated results of the Group for the six months ended 30th November, 2005 extracted from the 2005/2006 interim report of the Company:

	For the six months ended 30th November, 2005	Year ended 31st May, 2005	2004	2003
	(unaudited) *HK$'000*	*(audited)* *HK$'000*	*(audited)* *HK$'000*	*(audited)* *HK$'000*
Turnover	433,124	851,352	977,633	718,382
Cost of sales	(234,511)	(489,344)	(607,521)	(420,431)
Gross profit	198,613	362,008	370,112	297,951
Other revenues	22,647	43,540	22,266	33,362
Distribution costs	(66,267)	(158,072)	(152,593)	(101,816)
Administrative expenses	(77,297)	(153,067)	(153,858)	(152,571)
Operating profit	77,696	94,409	85,927	76,926
Finance costs	(18,695)	(25,515)	(22,448)	(15,745)
Profit before taxation	59,001	68,894	63,479	61,181
Taxation	(6,423)	5,658	5,017	(3,241)
Profit for the period/year	52,578	74,552	68,496	57,940
Minority interests		—	(1)	(1)
Profit attributable to shareholders		74,552	68,495	57,939
Attributable to:				
Equity holders of the Company	52,578			
Minority interests	—			
	52,578			
Dividends	11,264	30,621	30,572	31,020
Earnings per share				
Basic	12.48 cents	20.27 cents	22.00 cents	18.68 cents
Diluted	12.11 cents	N/A	21.38 cents	N/A
Dividend per share				
Basic	2.67 cents	8.33 cents	9.82 cents	10.00 cents
Diluted	2.59 cents	N/A	9.51 cents	N/A

Note: There were no extraordinary or exceptional items for the above financial years/period.

There were no qualifications in the auditors' report in respect of each of the three financial years ended 31st May 2003, 2004 and 2005.

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31ST MAY, 2005

The following information has been extracted from the audited consolidated financial statements of the Group for the year ended 31st May, 2005, the page numbers in the statements below refer to the 2004/2005 annual report of the Company.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st May, 2005

	Notes	**Year ended 31st May, 2005** *HK$'000*	**Year ended 31st May, 2004** *HK$'000*
Turnover	3	851,352	977,633
Cost of sales		(489,344)	(607,521)
Gross profit		362,008	370,112
Other revenues	4	43,540	22,266
Distribution costs		(158,072)	(152,593)
Administrative expenses		(153,067)	(153,858)
Operating profit	5	94,409	85,927
Finance costs	6	(25,515)	(22,448)
Profit before taxation		68,894	63,479
Taxation	7	5,658	5,017
Profit after taxation		74,552	68,496
Minority interests		—	(1)
Profit attributable to shareholders	8, 29	74,552	68,495
Dividends	9	30,621	30,572
Earnings per share	10		
Basic		20.27 cents	22.00 cents
Diluted		N/A	21.38 cents

CONSOLIDATED BALANCE SHEET

As at 31st May, 2005

	Notes	**31st May, 2005** *HK$'000*	**31st May, 2004** *HK$'000*
Non-current assets			
Fixed assets	13	44,041	39,056
Intangible assets	14	114,965	115,610
Interest in an associated company	16	(58)	(59)
Investments in non-trading securities	17	150,760	80,121
Deferred tax assets	27	16,645	9,646
		326,353	244,374
Current assets			
Inventories	18	269,493	207,868
Accounts receivable, net	19	85,367	286,061
Royalty deposit	20, 35(d)	7,406	14,079
Deposits, prepayments and other receivables		108,004	32,572
Due from fellow subsidiaries	35(c)	97,628	77,956
Due from a related company	35(d)	829	1,428
Short-term investments	21	113	38,449
Cash and cash equivalents			
— Promissory notes	22	357,329	164,568
— Cash and bank balances		60,820	35,267
		986,989	858,248
Current liabilities			
Accounts payable, accruals and other payables	23	(128,260)	(121,590)
Bills payable		(64,514)	(59,074)
Short-term bank borrowings	24	(229,043)	(136,369)
Current portion of long-term liabilities	25	(55,468)	(25,368)
Due to fellow subsidiaries	35(d)	(9,391)	(42,931)
Due to a related company	35(d)	(1,942)	(1,242)
Due to Directors	35(d)	(255)	(170)
Taxation payable		(1,026)	(10,092)
		(489,899)	(396,836)
Net current assets		497,090	461,412
Total assets less current liabilities		823,443	705,786

CONSOLIDATED BALANCE SHEET

As at 31st May, 2005

	Notes	31st May, 2005 HK$'000	31st May, 2004 HK$'000
Non-current liabilities			
Long-term liabilities	25	(161,604)	(126,559)
Convertible bonds	26	—	(66,300)
Deferred tax liabilities	27	(1,874)	(1,289)
		(163,478)	(194,148)
Minority interests		(41)	(41)
Net assets		659,924	511,597
Capital and reserves			
Share capital	28	206,582	158,735
Reserves	29	453,342	352,862
Shareholders' funds		659,924	511,597

BALANCE SHEET

As at 31st May, 2005

	Notes	31st May, 2005 HK$'000	31st May, 2004 HK$'000
Non-current assets			
Interests in subsidiaries	15	113,662	113,662
Deferred tax assets	27	50	—
		113,712	113,662
Current assets			
Dividend receivable from subsidiaries		—	30,000
Deposits, prepayments and other receivables		185	142
Due from subsidiaries	15(b)	348,055	384,146
Cash and bank balances		11,026	3,630
		359,266	417,918
Current liabilities			
Accounts payable, accruals and other payables	23	(1,464)	(1,374)
Current portion of long-term liabilities	25	(12,000)	—
Due to a subsidiary	15(c)	(23,750)	(129,009)
Due to Directors	35(d)	(255)	(170)
Taxation payable		(694)	(229)
		(38,163)	(130,782)
Net current assets		321,103	287,136
Total assets less current liabilities		434,815	400,798

BALANCE SHEET
As at 31st May, 2005

	Notes	**31st May, 2005** *HK$'000*	**31st May, 2004** *HK$'000*
Non-current liabilities			
Long-term liabilities	25	(108,000)	(120,000)
Convertible bonds	26	—	(66,300)
Deferred tax liabilities	27	—	(20)
		(108,000)	(186,320)
Net assets		326,815	214,478
Capital and reserves			
Share capital	28	206,582	158,735
Reserves	29	120,233	55,743
Shareholders' funds		326,815	214,478

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st May, 2005

	Notes	**Year ended 31st May, 2005** *HK$'000*	**Year ended 31st May, 2004** *HK$'000*
Total equity, beginning of year		511,597	456,599
Surplus/(deficit) on revaluation of non-trading securities	29	4,978	(112)
Exchange differences arising on translation of overseas subsidiaries' accounts	29	1,484	4,623
Net gains not recognised in the consolidated profit and loss account		6,462	4,511
Profit for the year	29	74,552	68,495
Prior year final dividend paid	29	(15,239)	(12,408)
Interim dividend paid	29	(22,724)	(17,300)
Shares issued upon conversion of convertible bonds	28	47,847	3,632
Share premium arising from conversion of convertible bonds	29	57,453	8,068
Expenses incurred in connection with conversion of convertible bonds	29	(24)	—
Total equity, end of year		659,924	511,597

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st May, 2005

	Notes	**Year ended 31st May, 2005** *HK$'000*	**Year ended 31st May, 2004** *HK$'000*
Operating activities			
Net cash inflow/(outflow) generated from operations	30(a)	98,755	(6,787)
Interest paid		(16,770)	(13,692)
Hong Kong profits tax paid		(4,033)	(1,618)
Hong Kong profits tax refund		—	1,394
Overseas taxation paid		(5,978)	(800)
Net cash inflow/(outflow) from operating activities		71,974	(21,503)
Investing activities			
Purchase of fixed assets		(12,659)	(8,571)
Sale of fixed assets		151	176
Payment for intangible assets		(65)	(402)
Interest received		20,333	11,677
Redemption/(Purchase) of short-term investments		46,852	(36,506)
Additions of non-trading securities		(65,660)	(16,924)
Refund of deposits for investment projects		—	42,856
Net cash outflow from investing activities		(11,048)	(7,694)
Net cash inflow/(outflow) before financing		60,926	(29,197)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st May, 2005

	Notes	**Year ended 31st May, 2005**	**Year ended 31st May, 2004**
		HK$'000	*HK$'000*
Financing activities	30(b)		
Proceeds from issuance of convertible bonds		39,000	78,000
Expenses incurred in connection with conversion of convertible bonds		(24)	—
New short-term bank loans and overdrafts		64,893	1,284
Repayment of short-term bank loans and overdrafts		(4,261)	(14,812)
New trust receipts and import loans		175,922	96,200
Repayment of trust receipts and import loans		(143,786)	(79,983)
New long-term bank loans		120,000	91,734
Repayment of long-term bank loans		(41,953)	(4,708)
Repayment of capital element of finance lease obligations		(54)	(134)
Repayment of notes payable and other long-term loans		(14,971)	(845)
Dividends paid		(37,963)	(29,708)
Net cash inflow from financing		156,803	137,028
Increase in cash and cash equivalents		217,729	107,831
Cash and cash equivalents, beginning of year		199,835	91,479
Effect of foreign exchange rate changes		585	525
Cash and cash equivalents, end of year	30(d)	418,149	199,835

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. ORGANISATION AND OPERATIONS

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

(a) **Basis of preparation**

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention as modified by the revaluation of certain leasehold land and buildings and investments in non-trading and trading securities.

The HKICPA has issued a number of new or revised Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") (collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005.

During the year, the Group has adopted the following new HKFRSs:

HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKFRS 3	Business Combinations

The effect of adopting these new HKFRSs is set out below in Notes 2(e)(i) and (ii).

The Group has not early adopted other new HKFRSs except for those mentioned above in the accounts for the year ended 31st May, 2005.

The Group has already commenced an assessment of the impact of other new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(b) **Group accounting**

(i) *Consolidation*

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

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

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

The gain or loss on disposal of a subsidiary is calculated by reference to the net assets at the date of disposal including the attributable amount of goodwill but does not include any attributable goodwill previously eliminated against reserves.

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

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

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

(ii) *Associated company*

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

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

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

(iii) *Translation of foreign currencies*

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

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

(c) **Fixed assets**

(i) *Leasehold land and buildings*

Leasehold land and buildings are stated at valuation less accumulated depreciation. Independent valuations are performed periodically with the last valuation performed on 31st May, 2005. In the intervening years, the Directors review the carrying value of the properties and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

(ii) *Freehold land and buildings*

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

(iii) *Other fixed assets*

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

(iv) *Depreciation*

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

Freehold land	Nil
Buildings on the freehold land	5%
Leasehold improvements	10% to 25%
Plant and machinery	15%
Furniture and fixtures	15% to 33⅓%
Motor vehicles	25%

(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. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

(d) **Assets under leases**

(i) *Finance leases*

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

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

(ii) *Operating leases*

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

(e) **Intangible assets**

(i) *Goodwill/Negative goodwill*

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

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

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

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

With the adoption of HKFRS 3, amortisation of goodwill has been discontinued since 1st June, 2004, and the related accumulated amortisation brought forward is transferred and eliminated against the cost of the goodwill. As a result, the Group's profit for the year ended 31st May, 2005 was increased by approximately $6,740,000. 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.

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, negative goodwill for acquisitions after 1st June, 2004, is recognised in the profit and loss account immediately on acquisition.

The carrying amount of negative goodwill previously recognised prior to 1st June, 2004, including that credited to the goodwill reserve, has been credited to the opening balance of retained profits. As a result, the Group's opening retained profits as at 1st June, 2004 was increased by approximately $81,963,000 with the corresponding decrease in the goodwill reserve of approximately $81,963,000.

(ii) *Trademarks*

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

On the first time adoption of HKAS 38, 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 and accordingly, the Group's profit for the year ended 31st May, 2005 was increased by approximately $738,000. 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, the Group completed its annual impairment test for the trademarks by comparing their recoverable amounts to their carrying amounts as at 31st May, 2005. The Group appointed LCH (Asia-Pacific) Surveyors Limited, independent professional valuer, to conduct valuations of the trademarks based on value-in-use calculation. The resulting values of the trademarks as at 31st May, 2005 were significantly higher than their carrying amounts.

The valuations use cash flow projections based on financial estimates covering a twelve-month period, expected royalty rates deriving from the trademarks in the range of 6% to 7% and a discount rate of 10%. The cash flows are extrapolated using a steady long-term growth rate of 3.5%. This growth rate does not exceed the long-term average growth rate for luxury consumer markets in which the Group operates. The Directors have considered the above assumptions and valuations and also taken into account the business development going forward and the strategic distribution expansion worldwide. In the opinion of the Directors, there is no indication of impairment in the carrying amounts of the trademarks. The Directors believe that any reasonably foreseeable change in any of the above key assumptions would not cause the aggregate carrying amounts of the trademarks to exceed the aggregate recoverable amounts.

(iii) *Research and development costs*

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

(iv) *Other intangible assets*

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

(f) **Impairment of assets**

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

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

(g) **Investments in securities**

(i) *Non-trading securities*

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

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

(ii) *Trading securities*

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

(h) **Inventories**

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

(i) **Accounts receivable**

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

(j) **Cash and cash equivalents**

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

(k) **Employee benefits**

(i) *Employee leave entitlements*

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

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

(ii) *Profit sharing and bonus plans*

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

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

(iii) *Pension obligations*

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

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

(l) **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the accounts and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax assets also arise from unused tax losses and unused tax credits. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arose from goodwill (or negative goodwill) or from initial recognition of assets and liabilities in a transaction (other than in a business combination) that affects neither the taxable profit nor the accounting profit.

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

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

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

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

(m) **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.

(n) **Turnover**

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

(o) **Revenue recognition**

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

(i) *Sales of goods*

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

(ii) *Income from licensing or assignment of brandnames or trademarks*

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

(iii) *Interest income*

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

(iv) *Dividend income*

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

(p) **Borrowing costs**

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

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

(q) **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.

(r) **Off-balance sheet financial instruments**

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

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

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

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

3. TURNOVER AND SEGMENT INFORMATION

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

(a) **Primary report format — business segments**

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

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

- Jewellery — design, manufacturing, distribution and trading of jewellery products.
- Investments — investments in strategic investments and other trading and non-trading securities. Strategic investments include investments in a private closed-end fund and an unlisted company which could bring medium or long-term synergetic benefits to the Group's businesses such as strategic alliance and partnership with various distribution business in Asia for furtherance of the Group's business penetration in the region.

	Year ended 31st May, 2005		
	Jewellery products	**Investments**	**Group**
	$'000	*$'000*	*$'000*
Turnover	851,352	—	851,352
Segment results	94,406	3	94,409
Finance costs			(25,515)
Profit before taxation			68,894
Taxation			5,658
Profit after taxation			74,552
Minority interests			—
Profit attributable to shareholders			74,552
Segment assets	1,162,527	150,873	1,313,400
Interest in an associated company	(58)	—	(58)
Total assets	1,162,469	150,873	1,313,342
Segment liabilities	(653,377)	—	(653,377)
Total liabilities	(653,377)	—	(653,377)
Capital expenditure	12,724	—	12,724
Depreciation	8,540	—	8,540
Amortisation	2,132	—	2,132
Write-back of provision for bad debts	339	—	339
Bad debt expense	2,690	—	2,690
Write-back of provision for inventory	22,832	—	22,832

	Year ended 31st May, 2004		
	Jewellery products	Investments	Group
	$'000	*$'000*	*$'000*
Turnover	977,633	—	977,633
Segment results	85,924	3	85,927
Finance costs			(22,448)
Profit before taxation			63,479
Taxation			5,017
Profit after taxation			68,496
Minority interests			(1)
Profit attributable to shareholders			68,495
Segment assets	1,022,451	80,230	1,102,681
Interest in an associated company	(59)	—	(59)
Total assets	1,022,392	80,230	1,102,622
Segment liabilities	(590,984)	—	(590,984)
Total liabilities	(590,984)	—	(590,984)
Capital expenditure	93,115	—	93,115
Depreciation	10,225	—	10,225
Amortisation	9,289	—	9,289
Bad debt expense	2,217	—	2,217
Write-back of provision for inventory	5,435	—	5,435

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

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

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

	Year ended 31st May, 2005			At 31st May, 2005
	Turnover	Segment results	Capital expenditure	Total assets
	$'000	*$'000*	*$'000*	*$'000*
Europe	650,766	84,240	854	454,256
America	76,037	(6,686)	2,655	50,947
Asia Pacific	124,549	16,855	9,215	808,197
	851,352	94,409	12,724	1,313,400
Interest in an associated company				(58)
				1,313,342

	Year ended 31st May, 2004			At 31st May, 2004
	Turnover	Segment results	Capital expenditure	Total assets
	$'000	*$'000*	*$'000*	*$'000*
Europe	627,749	75,837	85,412	392,198
America	64,805	105	2,554	47,376
Asia Pacific	285,079	9,985	5,149	663,107
	977,633	85,927	93,115	1,102,681
Interest in an associated company				(59)
				1,102,622

4. OTHER REVENUES

	Year ended 31st May, 2005	Year ended 31st May, 2004
	$'000	*$'000*
Interest income	22,918	12,847
Management fees	5	5
Redemption premium received on maturity of equity-linked notes	8,512	1,834
Gain on disposal of fixed assets	—	67
Gain on revaluation of fixed assets	990	—
Gain on revaluation of listed trading securities	3	3
Others	11,112	7,510
	43,540	22,266

5. OPERATING PROFIT

Operating profit was stated after crediting and charging the following:

	Year ended 31st May, 2005	Year ended 31st May, 2004
	$'000	*$'000*
Crediting:		
Interest income from		
— bank deposits	497	301
— promissory notes	19,027	10,267
— equity-linked notes	1,481	452
— deposit with a fellow subsidiary	1,030	1,719
— others	883	108
Gain on disposal of fixed assets	—	67
Gain on revaluation of		
— fixed assets	990	—
— listed trading securities	3	3
Auditors' remuneration		
— prior year over-provision	26	—
Redemption premium received on maturity of equity-linked notes	8,512	1,834
Write-back of provision for bad debts	339	—
Write-back of provision for inventory	22,832	5,435
Charging:		
Depreciation:		
— owned fixed assets	8,489	10,174
— leased fixed assets	51	51
Amortisation of intangible assets	2,132	9,289
Loss on disposal of fixed assets	125	—
Loss on disposal of intangible assets	11	—
Auditors' remuneration		
— current year	1,458	2,022
— prior year under-provision	—	962
Operating lease rentals		
— leasehold land and buildings	7,736	7,916
— furniture and equipment	2,705	4,058
Bad debt expense	2,690	2,217
Exchange loss, net *(a)*	5,696	378
Staff costs (including Directors' and senior executives' emoluments) *(Note 11)*	148,922	132,051

Note:

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

During the year, the Group bought and sold certain foreign currency options from/to certain commercial banks. At 31st May, 2005, the Group's outstanding written foreign currency options with a notional principal value of

EUR13,080,000 (2004: EUR6,800,000 and USD1,000,000) equivalent were marked to market in accordance with the Group's accounting policy on currency options (Note 2(r)), resulting in an unrealised exchange loss of approximately $1,196,000 (2004: a gain of $6,665,000).

The remaining debit amount of approximately $4,500,000 (2004: $7,043,000) was related to other foreign currency transactions/translation loss (2004: loss).

6. FINANCE COSTS

	Year ended 31st May, 2005	**Year ended 31st May, 2004**
	$'000	*$'000*
Interest on bank borrowings wholly repayable within five years	16,367	13,746
Interest on convertible bonds	140	282
Interest on other loans	51	31
Interest element of finance leases	5	6
Interest on advance from a fellow subsidiary	62	—
Interest on advance from an associated company	7	8
Bank charges	8,883	8,375
	25,515	22,448

7. TAXATION

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

	Year ended 31st May, 2005	**Year ended 31st May, 2004**
	$'000	*$'000*
The Company and its subsidiaries:		
Current taxation:		
Hong Kong profits tax		
— Provision for the year	767	3,839
— Over-provision in prior years	(4,879)	—
Overseas taxation		
— Provision for the year	384	1,614
— Under-provision in prior years	1,534	279
Deferred taxation *(Note 27(a))*:		
— Recognised during the year	(3,464)	(10,749)
Tax income for the year	(5,658)	(5,017)

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit arising in or derived from Hong Kong for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year provided by subsidiaries with overseas operations at the rates of taxation prevailing in the countries in which the subsidiaries operated.

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

	2005	**2004**
	$'000	*$'000*
Profit before taxation	68,894	63,479
Tax at the domestic profits tax rate of 17.5% (2004: 17.5%)	12,056	11,109
Tax effect of income not subject to taxation	(20,059)	(20,238)
Tax effect of expenses that are not deductible in determining taxable profit	2,397	2,516
Tax effect of tax loss not recognised	5,454	4,903
Tax effect of other temporary differences not recognised	(33)	2,268
Effect of different tax rates of subsidiaries operating in other jurisdictions	(2,128)	(4,267)
(Over)/Under-provision in prior years	(3,345)	279
Others	—	(1,587)
Tax income for the year	(5,658)	(5,017)

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately $45,024,000 (2004: $31,733,000).

9. DIVIDENDS

	Year ended 31st May, 2005	**Year ended 31st May, 2004**
	$'000	*$'000*
Interim, paid, of 5.50 cents (2004: 5.50 cents) per ordinary share	22,724	17,300
Final, proposed, of 1.85 cents (2004: 4.00 cents) per ordinary share	7,897	13,272
	30,621	30,572

During the year, an interim dividend of approximately $22,724,000 (2004: $17,300,000) was declared and paid on 30th March, 2005.

At the annual general meeting to be held on 17th November, 2005, the Directors will recommend a final dividend of 1.85 cents per ordinary share. This proposed dividend is not reflected as dividend payable in the accounts, but will be reflected as an appropriation of retained profits for the year ending 31st May, 2006, if approved by shareholders at the said meeting.

10. EARNINGS PER SHARE

(a) Basic earnings per share

The basic earnings per share was calculated based on the consolidated profit attributable to shareholders for the year of approximately $74,552,000 (2004: $68,495,000) and the weighted average number of ordinary shares of approximately 367,754,000 (2004: 311,372,000) in issue during the year.

(b) Diluted earnings per share

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

During the year ended 31st May, 2004, diluted earnings per share was calculated based on the adjusted consolidated profit attributable to shareholders for the year of approximately $68,727,000 and the weighted average number of ordinary shares of approximately 321,390,000 that would be in issue having adjusted for the effects of all dilutive potential ordinary shares issuable during the year.

(c) Reconciliation

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

	Year ended 31st May, 2005	**Year ended 31st May, 2004**
	$'000	*$'000*
Profit attributable to shareholders used in calculating basic earnings per share	74,552	68,495
Interest savings in respect of convertible bonds	—	232
Profit attributable to shareholders used in calculating diluted earnings per share	74,552	68,727

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

	Year ended 31st May, 2005	**Year ended 31st May, 2004**
Weighted average number of ordinary shares used in calculating basic earnings per share	367,754,000	311,372,000
Dilutive potential effect in respect of convertible bonds	—	10,018,000
Weighted average number of ordinary shares used in calculating diluted earnings per share	367,754,000	321,390,000

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

	Year ended 31st May, 2005 *$'000*	Year ended 31st May, 2004 *$'000*
Wages and salaries	148,458	131,539
Staff retirement scheme contributions *(Note 31)*	562	538
Less: Refund of forfeited contributions *(Note 31)*	(98)	(26)
	148,922	132,051

12. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) **Directors' emoluments**

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

	Group	
	Year ended 31st May, 2005 *$'000*	Year ended 31st May, 2004 *$'000*
Fees for Executive Directors	—	15
Fees for Non-executive Directors	—	—
Other emoluments for Executive Directors		
— Basic salaries, housing allowances, other allowances and benefits in kind	1,634	1,528
— Contributions to pension schemes for Directors	48	48
— Bonuses*	—	—
Other emoluments for Non-executive Directors	531	550
	2,213	2,141

Note:

* The Directors were entitled to a discretionary bonus.

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

	Group	
	Year ended 31st May, 2005	**Year ended 31st May, 2004**
Executive Directors		
— Nil - $1,000,000	7	7
Non-executive Directors		
— Nil - $1,000,000	3	4

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

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

(i) During the year, the five highest-paid individuals did not include any Director (2004: five). The emoluments of the five (2004: five) highest-paid individuals were analysed as below:

	Group	
	Year ended 31st May, 2005	**Year ended 31st May, 2004**
	$'000	*$'000*
Basic salaries, housing allowances, other allowances and benefits in kind	5,498	4,179
Contributions to pension schemes	70	89
Bonuses	—	469
	5,568	4,737

(ii) Analysis of emoluments paid to the aforementioned five (2004: five) highest-paid individuals by number of individuals and emolument ranges was as follows:

	Group	
	Year ended 31st May, 2005	**Year ended 31st May, 2004**
— Nil - $1,000,000	3	2
— $1,000,001 - $1,500,000	1	3
— $1,500,001 - $2,000,000	1	—
	5	5

(iii) During the year, no emoluments of the five highest-paid individuals were incurred as inducement to join or upon joining the Group or as compensation for loss of office.

13. FIXED ASSETS

Group

	Freehold land and buildings	Leasehold land and buildings	Leasehold improvements	Plant and machinery	Furniture and fixtures	Motor vehicles	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Cost or valuation							
At 1st June, 2004	2,167	6,300	16,698	41,248	34,173	2,997	103,583
Exchange adjustments	—	—	—	—	195	31	226
Revaluation	—	700	—	—	—	—	700
Additions	—	—	2,899	5,042	4,533	185	12,659
Disposals	—	—	(361)	—	(1,081)	(218)	(1,660)
At 31st May, 2005	2,167	7,000	19,236	46,290	37,820	2,995	115,508
Accumulated depreciation							
At 1st June, 2004	288	143	12,034	34,360	15,982	1,720	64,527
Exchange adjustments	—	—	—	—	68	6	74
Revaluation	—	(290)	—	—	—	—	(290)
Charge for the year	61	147	1,303	1,861	4,396	772	8,540
Disposals	—	—	(323)	—	(976)	(85)	(1,384)
At 31st May, 2005	349	—	13,014	36,221	19,470	2,413	71,467
Net book value							
At 31st May, 2005	1,818	7,000	6,222	10,069	18,350	582	44,041
At 31st May, 2004	1,879	6,157	4,664	6,888	18,191	1,277	39,056

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

The leasehold land and buildings situated in Hong Kong were revalued on 31st May, 2005 by LCH (Asia-Pacific) Surveyors Limited, independent professional valuers, on an open market value basis. Had those leasehold land and buildings been carried at cost less accumulated depreciation, the net book value of the leasehold land and buildings at 31st May, 2005 would have been approximately $7,529,000 (2004: $7,733,000).

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

	2005	**2004**
	$'000	*$'000*
Held in Hong Kong		
— under leases between 10 to 50 years	7,000	6,157
Held outside Hong Kong		
— freehold	1,818	1,879
	8,818	8,036

(c) At 31st May, 2005, no asset was held under finance leases. At 31st May, 2004, the net book value of motor vehicles held under finance leases amounted to approximately $149,000.

14. INTANGIBLE ASSETS

Group

	Know-how	**Licences and trademarks**	**Development costs**	**Goodwill**	**Total**
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Cost					
At 1st June, 2004	23,094	17,521	492	97,528	138,635
Exchange adjustments	133	31	—	1,661	1,825
Additions	—	65	—	—	65
Transfer from accumulated amortisation upon adoption of HKFRS 3	—	—	—	(11,013)	(11,013)
Disposals	—	—	(11)	—	(11)
At 31st May, 2005	23,227	17,617	481	88,176	129,501
Accumulated amortisation					
At 1st June, 2004	7,906	4,368	126	10,625	23,025
Exchange adjustments	(3)	7	—	388	392
Charge for the year	1,527	511	94	—	2,132
Transfer to cost upon adoption of HKFRS 3	—	—	—	(11,013)	(11,013)
At 31st May, 2005	9,430	4,886	220	—	14,536
Net book value					
At 31st May, 2005	13,797	12,731	261	88,176	114,965
At 31st May, 2004	15,188	13,153	366	86,903	115,610

15. INTERESTS IN SUBSIDIARIES

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

	Company	
	2005	**2004**
	$'000	*$'000*
Unlisted shares, at cost	120,910	120,910
Loan to a subsidiary *(a)*	14,400	14,400
	135,310	135,310
Less: Accumulated impairment losses	(21,648)	(21,648)
	113,662	113,662

Notes:

(a) Loan to a subsidiary of $14,400,000 (2004: $14,400,000) was unsecured, non-interest bearing and not repayable within one year.

(b) All of the amounts due from subsidiaries were unsecured and repayable on demand. Except for the amounts due from subsidiaries of approximately $8,940,000 (2004: $8,739,000) which were non-interest bearing, the remaining balances due from subsidiaries bore interest at prevailing commercial rates.

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

(d) At 31st May, 2005, the Company provided corporate guarantees of approximately $977,359,000 (2004: $643,090,000) to secure banking and other loan facilities of certain subsidiaries.

(e) The underlying value of interests in subsidiaries was, in the opinion of the Directors, not less than the Company's carrying value at 31st May, 2005.

Details of the principal subsidiaries at 31st May, 2005 were as follows:

Name	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of nominal value of issued capital held by the Company Directly	Indirectly	Principal activities
			%	%	
Abel & Zimmermann GmbH & Co KG#	Germany	EUR511,292	—	85	Manufacturing and distribution of jewellery
Calibre Jewellery (Shenzhen) Co. Ltd.#*	The People's Republic of China ("PRC")	US$600,000	—	100	Manufacturing of jewellery
EganaGoldpfeil Benelux Jewel B.V.#	The Netherlands	EUR18,000	—	100	Distribution of jewellery
Egana Investments (Pacific) Limited	Cook Islands	US$1	100	—	Investment holding and licensing operations
Egana Jewelry & Pearls (America) Corp.#	The United States of America	US$881,000	100	—	Design and distribution of jewellery
Egana Juwelen & Perlen Handels GmbH#	Austria	EUR36,336	—	100	Distribution of jewellery
Egana Marketing (Suisse) Inc.	Cook Islands	US$1	—	100	Marketing and promotion
Egana Schmuck und Perlen GmbH#	Germany	EUR25,565	100	—	Design and distribution of jewellery
Everstone Limited	Hong Kong/ the PRC	$100	—	100	Manufacturing of jewellery
Guthmann + Wittenauer Schmuck GmbH#	Germany	EUR1,500,000	—	100	Manufacturing and distribution of jewellery
Jacquelin Designs Enterprises, Inc.#	The United States of America	—	100	—	Design and distribution of jewellery
Keimothai Limited#	Thailand	Baht81,000,000	—	100	Sourcing, manufacturing and distribution of jewellery

Name	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of nominal value of issued capital held by the Company Directly	Indirectly	Principal activities
			%	%	
Oro Design Limited	Hong Kong	$10,000	100	—	Design, manufacturing and distribution of jewellery
Rebner GmbH#	Germany	EUR25,564	—	85	Investment holding
Time Success Industrial Limited	Hong Kong	$2	100	—	Property holding
Panorama Company Limited	Hong Kong	$2	100	—	Inactive

Notes:

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

* Wholly foreign-owned enterprise incorporated in the PRC.

16. INTEREST IN AN ASSOCIATED COMPANY

Interest in an associated company comprised:

	Group 2005	2004
	$'000	*$'000*
Share of net assets	32	32
Due to an associated company *(Note 35(d))*	(90)	(91)
	(58)	(59)

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

Details of the Group's associated company at 31st May, 2005 were as follows:

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

17. INVESTMENTS IN NON-TRADING SECURITIES

Investments in non-trading securities comprised:

	Group	
	2005	**2004**
	$'000	*$'000*
Equity securities:		
Listed, at fair value		
— in Hong Kong	75,417	3,687
Unlisted, at fair value		
— a private closed-end fund *(a)*	38,290	39,381
— an unlisted company *(b)*	37,053	37,053
	75,343	76,434
	150,760	80,121

Notes:

(a) At 31st May, 2005, the Group had a strategic investment of approximately $38,000,000 (2004: $39,000,000) in one private closed-end fund. The fund was under the management of a third party Hong Kong listed investment banking group ("LISTED CO"). At 31st May, 2005, the fund was stated at fair value which was determined by the Directors and a revaluation deficit of approximately $1,085,000 (2004: a surplus of $6,000) was recorded in the revaluation reserve. In the opinion of the Directors, there was no indication of impairment in the carrying value of the fund.

(b) At 31st May, 2005, the investment in the unlisted company was stated at fair value which was determined by the Directors and a revaluation surplus of approximately $17,553,000 (2004: $17,553,000) was recorded in the revaluation reserve. In the opinion of the Directors, there was no indication of impairment in the carrying value of the unlisted company.

18. INVENTORIES

	Group	
	2005	**2004**
	$'000	*$'000*
Raw materials	64,551	57,352
Work-in-progress	39,335	31,817
Finished goods	165,948	141,975
	269,834	231,144
Less: Provision for inventory	(341)	(23,276)
	269,493	207,868

At 31st May, 2004 and 2005, no inventories were carried at net realisable value.

At 31st May, 2005, inventories of approximately $59,687,000 (2004: $48,782,000) were pledged as security for banking facilities granted to the Group.

19. ACCOUNTS RECEIVABLE, NET

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

	Group		**Company**	
	2005	**2004**	**2005**	**2004**
	$'000	*$'000*	*$'000*	*$'000*
Due				
In current month	58,995	265,985	—	—
Between one to two months	6,198	6,880	—	—
Between two to three months	1,589	2,072	—	—
Between three to four months	1,828	7,807	—	—
Over four months	16,757	3,317	—	—
	85,367	286,061	—	—

20. ROYALTY DEPOSIT — GROUP

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

21. SHORT-TERM INVESTMENTS

	Group	
	2005	**2004**
	$'000	*$'000*
Equity-linked notes *(a)*	—	38,340
Trading securities listed outside Hong Kong	113	109
	113	38,449

Note:

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

At 31st May, 2005, all of the ELNs have been redeemed by the Note Issuer on maturity.

22. PROMISSORY NOTES

Promissory notes represented short-term deposits with independent third party companies with maturity within three months, which were unsecured and bore interest at prevailing commercial rates. At 31st May, 2005, all the promissory notes were due for repayment in the period from June to August 2005 of which approximately $242,014,000 was rolled over upon maturity for another one to three months.

23. ACCOUNTS PAYABLE, ACCRUALS AND OTHER PAYABLES

At 31st May, 2005, accounts payable, accruals and other payables were analysed as follows:

	Group		**Company**	
	2005	**2004**	**2005**	**2004**
	$'000	*$'000*	*$'000*	*$'000*
Accounts payable	69,614	65,566	—	—
Accrued charges and other payables	58,646	56,024	1,464	1,374
	128,260	121,590	1,464	1,374

An aging analysis of accounts payable was as follows:

	Group		**Company**	
	2005	**2004**	**2005**	**2004**
	$'000	*$'000*	*$'000*	*$'000*
Due				
In current month	51,750	52,342	—	—
Between one to two months	4,513	7,170	—	—
Between two to three months	4,675	1,633	—	—
Between three to four months	3,578	2,466	—	—
Over four months	5,098	1,955	—	—
	69,614	65,566	—	—

24. SHORT-TERM BANK BORROWINGS

	Group		**Company**	
	2005	**2004**	**2005**	**2004**
	$'000	*$'000*	*$'000*	*$'000*
Bank loans and overdrafts	168,772	108,235	—	—
Trust receipts and import loans	60,271	28,134	—	—
	229,043	136,369	—	—

25. LONG-TERM LIABILITIES

Long-term liabilities comprised:

	Group		Company	
	2005	**2004**	**2005**	**2004**
	$'000	*$'000*	*$'000*	*$'000*
Long-term bank borrowings *(a)*	211,567	131,944	120,000	120,000
Notes payable *(b)*	3,977	4,072	—	—
Other long-term loans *(c)*	1,528	15,857	—	—
Obligations under finance leases *(d)*	—	54	—	—
	217,072	151,927	120,000	120,000
Less: Current portion of long-term liabilities	(55,468)	(25,368)	(12,000)	—
	161,604	126,559	108,000	120,000

Notes:

(a) Long-term bank borrowings:

	Group		Company	
	2005	**2004**	**2005**	**2004**
	$'000	*$'000*	*$'000*	*$'000*
Repayable within a period of				
— within one year				
— secured	—	20,029	—	—
— unsecured	54,776	4,825	12,000	—
— in the second year				
— secured	—	13,094	—	—
— unsecured	116,791	16,578	108,000	12,000
— in the third to fifth year				
— secured	—	—	—	—
— unsecured	40,000	77,418	—	108,000
	211,567	131,944	120,000	120,000
Less: Amounts repayable within one year included under current liabilities	(54,776)	(24,854)	(12,000)	—
	156,791	107,090	108,000	120,000

On 5th March, 2004, the Company entered into a syndicated loan agreement (the "Loan Agreement") with banks for a three-year transferable loan facility amounting to $120 million. The syndicated loan carries interest at commercial lending rates and is guaranteed by certain subsidiaries of the Company. The syndicated loan will be repaid by three semi-annual instalments and the first instalment will be payable in March 2006.

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

(b) Notes payable:

	Group	
	2005	**2004**
	$'000	*$'000*
Repayable within a period of		
— within one year	94	94
— in the second year	94	93
— in the third to fifth year	280	281
— after the fifth year	3,509	3,604
	3,977	4,072
Less: Amounts repayable within one year included under current liabilities	(94)	(94)
	3,883	3,978

At 31st May, 2005, notes payable not wholly repayable within five years amounted to approximately $3,977,000 (2004: $4,072,000). These balances were unsecured, non-interest bearing and repayable by instalments.

(c) Other long-term loans:

	Group	
	2005	**2004**
	$'000	*$'000*
Repayable within a period of		
— within one year	598	366
— in the second year	194	191
— in the third to fifth year	664	635
— after the fifth year	72	14,665
	1,528	15,857
Less: Amounts repayable within one year included under current liabilities	(598)	(366)
	930	15,491

At 31st May, 2005, other long-term loans not wholly repayable within five years amounted to approximately $1,165,000 (2004: $15,673,000). Except for an amount of approximately $1,165,000 (2004: $1,333,000) which was interest-bearing at commercial lending rates, all other balances were unsecured, non-interest bearing and repayable by instalments.

(d) At 31st May, 2005, the Group's finance lease liabilities were repayable as follows:

	Group	
	2005	2004
	$'000	*$'000*
Within one year	—	60
Less: Future finance charges of finance leases	—	(6)
Present value of finance lease liabilities	—	54
The present value of finance lease liabilities was as follows:		
Within one year	—	54
Present value of finance lease liabilities	—	54
Less: Amounts repayable within one year included under current liabilities	—	(54)
	—	—

26. CONVERTIBLE BONDS

	Group and Company	
	2005	2004
	$'000	*$'000*
Beginning of year	66,300	—
Issued during the year *(a)*	39,000	78,000
Converted to ordinary shares *(b)*	(105,300)	(11,700)
End of year	—	66,300

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

On 26th February, 2004, the Company issued convertible bonds (the "Tranche 1 Bonds") of US$10 million (equivalent to approximately $78 million) to Merrill Lynch. Tranche 1 Bonds amounting to US$1.5 million (equivalent to $11.7 million) were converted into ordinary shares in prior year, with the remaining balance of US$8.5 million (equivalent to $66.3 million) converted into ordinary shares in the current year.

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

In accordance with the terms and conditions of the subscription letter dated 10th February, 2004, the Company has granted Merrill Lynch subscription rights to subscribe for approximately 5.5 million ordinary shares and 3.5 million ordinary shares in respect of the Tranche 1 Bonds and Tranche 3a Bonds respectively.

As at 31st May, 2005, options exercisable by either the Company or Merrill Lynch to issue Tranche 1a Bonds, Tranche 2a and 2b Bonds and Tranche 3b Bonds under the Subscription Agreement have not been exercised and expired in accordance with the terms of the Subscription Agreement.

(b) During the year, convertible bonds (Tranche 1 Bonds and Tranche 3a Bonds) amounting to US$13.5 million (equivalent to approximately $105.3 million) were converted into ordinary shares as mentioned in Note 28.

27. DEFERRED TAX ASSETS/(LIABILITIES)

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

	Group	
	2005	**2004**
	$'000	*$'000*
Beginning of year	8,357	(2,392)
Exchange adjustments	(155)	—
Recognised during the year	3,464	10,749
Transfer from taxation payable	3,105	—
End of year	14,771	8,357
Provided for in respect of:		
Accelerated depreciation allowances	(1,874)	(1,061)
Unrealised profit in inventories of subsidiaries	6,779	9,410
Deferred expense/(income)	434	(228)
Tax losses carried forward	9,432	236
	14,771	8,357

	Company	
	2005	**2004**
	$'000	*$'000*
Beginning of year	(20)	—
Recognised during the year	70	(20)
End of year	50	(20)
Provided for in respect of:		
Deferred expense/(income)	50	(20)
	50	(20)

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

(b) Deferred taxation is calculated in full on temporary differences under the balance sheet liability method using a principal taxation rate of 17.5% (2004: 17.5%). Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred tax relates to the same fiscal authority. The following amounts are shown in the balance sheet:

	Group		Company	
	2005	**2004**	**2005**	**2004**
	$'000	*$'000*	*$'000*	*$'000*
Deferred tax liabilities	(1,874)	(1,289)	—	(20)
Deferred tax assets	16,645	9,646	50	—
	14,771	8,357	50	(20)

(c) At 31st May, 2005, the Group has unused tax losses of approximately $85,776,000 (2004: $50,704,000) available for offset against future profits. Deferred tax asset has been recognised in respect of approximately $23,175,000 (2004: $1,351,000) of such losses. No deferred tax asset has been recognised in respect of the remaining $62,601,000 (2004: $49,353,000) due to the unpredictability of future profit streams. The unrecognised tax losses will expire through 5 years to indefinitely.

28. SHARE CAPITAL

Share capital comprised:

	Group and Company			
	2005	**2004**	**2005**	**2004**
	Number of ordinary shares		*$'000*	*$'000*
Authorised:				
Beginning and end of year	500,000,000	500,000,000	250,000	250,000
Issued and fully paid:				
Beginning of year	317,470,029	310,205,869	158,735	155,103
Issued upon exercise of convertible bonds	95,694,423	7,264,160	47,847	3,632
End of year	413,164,452	317,470,029	206,582	158,735

At 31st May, 2005, the Company had issued a total of 95,694,423 (2004: 7,264,160) new ordinary shares of $0.5 each in the Company upon the conversion of $105,300,000 (2004: $11,700,000) convertible bonds as set out in Note 26. Share premium of approximately $57,453,000 (2004: $8,068,000) arose from the issuance of new ordinary shares.

Share options

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

Details of outstanding share options:

		At 31st May, 2005			At 31st May, 2004		
Date granted	**Expiry date**	**Exercise price**	**No. of options**	**No. of options vested**	**Exercise price**	**No. of options**	**No. of options vested**
		$	*'000*	*'000*	*$*	*'000*	*'000*
Directors							
09/01/2000	23/07/2008	2.24	3,550	—	2.24	3,550	—
12/01/2000	23/07/2008	2.24	—	—	2.24	250	—
17/01/2000	23/07/2008	2.24	250	—	2.24	250	—
			3,800	—		4,050	—
Employees under continuous contracts (excluding Directors)							
07/01/2000 to 31/01/2000	23/07/2008	2.24	9,075	—	2.24	9,075	—
			9,075	—		9,075	—
			12,875	—		13,125	—

No share options were granted (2004: Nil), exercised (2004: Nil) or cancelled (2004: Nil) during the year.

250,000 share options were lapsed (2004: Nil) during the year.

29. RESERVES

Group

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

	Share premium	Exchange translation reserve	Retained profits	Goodwill	Revaluation reserve	Other reserve	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Beginning of year	39,295	12,354	214,883	68,814	17,447	69	352,862
Effect of adopting HKFRS 3 *(Note 2(e)(i))*	—	—	81,963	(81,963)	—	—	—
Beginning of year, as restated	39,295	12,354	296,846	(13,149)	17,447	69	352,862
Share premium arising from conversion of convertible bonds (Note 28)	57,453	—	—	—	—	—	57,453
Expenses incurred in connection with conversion of convertible bonds	(24)	—	—	—	—	—	(24)
Exchange differences arising on translation of overseas subsidiaries' accounts	—	1,484	—	—	—	—	1,484
Surplus on revaluation of non-trading securities	—	—	—	—	4,978	—	4,978
Profit for the year	—	—	74,552	—	—	—	74,552
2004 final dividend paid	—	—	(15,239)	—	—	—	(15,239)
Interim dividend paid	—	—	(22,724)	—	—	—	(22,724)
End of year	96,724	13,838	333,435	(13,149)	22,425	69	453,342
Representing:							
2005 Final dividend proposed			7,897				
Others			325,538				
Retained profits at end of year			333,435				

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

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

At 31st May, 2004 and 2005, all the reserves of the Group were attributable to the Company and its subsidiaries.

Company

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

	Share premium	Retained profits	Total
	$'000	*$'000*	*$'000*
Beginning of year	39,295	16,448	55,743
Share premium arising from conversion of convertible bonds	57,453	—	57,453
Expenses incurred in connection with conversion of convertible bonds	(24)	—	(24)
Profit for the year	—	45,024	45,024
2004 final dividend paid	—	(15,239)	(15,239)
Interim dividend paid	—	(22,724)	(22,724)
End of year	96,724	23,509	120,233
Representing:			
2005 Final dividend proposed		7,897	
Others		15,612	
Retained profits at end of year		23,509	

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

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

30. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	Year ended 31st May, 2005	**Year ended 31st May, 2004**
	$'000	*$'000*
Profit before taxation	68,894	63,479
Depreciation	8,540	10,225
Amortisation of intangible assets	2,132	9,289
Loss/(Gain) on disposal of fixed assets	125	(67)
Gain on revaluation of fixed assets	(990)	—
Loss on disposal of intangible assets	11	—
Gain on revaluation of listed trading securities	(3)	(3)
Redemption premium received on maturity of equity-linked notes	(8,512)	(1,834)
Interest income	(22,918)	(12,847)
Interest expense	16,632	14,073
Operating profit before working capital changes	63,911	82,315
Increase in inventories	(59,391)	(1,737)
Increase in due from fellow subsidiaries	(18,914)	(12,269)
Decrease/(Increase) in due from a related company	598	(766)
Decrease/(Increase) in accounts receivable	200,939	(155,190)
(Increase)/Decrease in deposits, prepayments and other receivables	(65,855)	47,257
Increase/(Decrease) in accounts payable, accruals and other payables	5,569	(10,165)
Increase in bills payable	5,405	22,084
Decrease in due to an associated company	(1)	(37)
(Decrease)/Increase in due to fellow subsidiaries	(34,849)	23,174
Increase in due to a related company	697	1,242
Increase in due to Directors	85	120
Effect of foreign exchange rate changes	561	(2,815)
Net cash inflow/(outflow) generated from operations	98,755	(6,787)

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

	Year ended 31st May, 2005										2004
	Share capital (including share premium)	Other reserve	Dividend payable	Long-term bank borrowings	Short-term bank borrowings	Finance lease obligations	Notes payable and other long-term loans	Convertible bonds	Minority interests	Total	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Beginning of year	198,030	69	—	131,944	136,369	54	19,929	66,300	41	552,736	381,704
Net cash (outflow)/ inflow from financing	(24)	—	(37,963)	78,047	92,768	(54)	(14,971)	39,000	—	156,803	137,028
Conversion of convertible bonds	105,300	—	—	—	—	—	—	(105,300)	—	—	—
Share of profit by minority shareholders	—	—	—	—	—	—	—	—	—	—	1
Share of exchange translation reserve by minority shareholders	—	—	—	—	—	—	—	—	—	—	12
Prior year final dividend paid	—	—	15,239	—	—	—	—	—	—	15,239	12,408
Interim dividend paid	—	—	22,724	—	—	—	—	—	—	22,724	17,300
Exchange adjustments	—	—	—	1,576	(94)	—	547	—	—	2,029	4,283
End of year	303,306	69	—	211,567	229,043	—	5,505	—	41	749,531	552,736

(c) Acquisition of business:

	Year ended 31st May, 2005	Year ended 31st May, 2004
	$'000	*$'000*
Net liabilities acquired:		
Inventories	—	5,844
Deposits, prepayment and other receivables	—	1,323
Accounts payable, accruals and other payables	—	(12,514)
	—	(5,347)
Goodwill	—	84,142
Consideration	—	78,795
Satisfied by:		
Set off against accounts receivable	—	78,795

(d) Analysis of cash and cash equivalents:

	2005	2004
	$'000	*$'000*
Promissory notes *(Note 22)*	357,329	164,568
Cash and bank balances	60,820	35,267
	418,149	199,835

31. PENSION SCHEME

The Group has participated in the defined Mandatory Provident Fund Scheme in Hong Kong since 1st December, 2000 and made monthly contributions to the scheme based on 5% - 7% of the employees' basic salaries. The contributions were subject to a maximum of $1,000 per month per employee and thereafter contributions are voluntary. During the year, the Group's employer's contribution for pension scheme was approximately $562,000 (2004: $538,000). The assets of the fund were held separately from those of the Group and were managed by independent professional fund managers.

Forfeited contributions totalling $98,000 (2004: $26,000) were utilised during the year.

32. CONTINGENT LIABILITIES

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

	Group		Company	
	2005	2004	2005	2004
	$'000	*$'000*	*$'000*	*$'000*
Discounted bills with recourse	40,506	423	—	—
Corporate guarantees provided to financial institutions in respect of facilities granted to subsidiaries *(Note 15d)*	—	—	931,280	597,226
Corporate guarantees provided to other institutions in respect of facilities granted to subsidiaries *(Note 15d)*	—	—	46,079	45,864

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

33. BANKING FACILITIES

At 31st May, 2005, the Group's banking facilities for overdrafts, loans and trade finance were secured by unconditional and continuing corporate guarantees provided by the Company and certain subsidiaries and cross guarantees among its subsidiaries.

34. COMMITMENTS

(a) At 31st May, 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2005		2004	
	Leasehold land and buildings	**Furniture and equipment**	**Leasehold land and buildings**	**Furniture and equipment**
	$'000	*$'000*	*$'000*	*$'000*
Payable:				
— Not later than one year	6,482	2,444	2,980	1,209
— Later than one year and not later than five years	22,880	1,192	7,948	478
— Later than five years	20,919	—	4,615	—
	50,281	3,636	15,543	1,687

(b) At 31st May, 2005, the Group had future aggregate minimum payments under license agreements as follows:

	2005	**2004**
	$'000	*$'000*
Payable:		
— Not later than one year	27,420	29,194
— Later than one year and not later than five years	94,818	94,933
— Later than five years	182,744	206,569
	304,982	330,696

(c) (i) **Off-balance sheet financial instruments**

During the year, the Group entered into forward exchange and precious metals contracts in order to hedge against firmly committed commercial transactions. The contracts were arranged with commercial banks and other institutions. In addition, the Group has also bought and sold some currency options. The Group had, at 31st May, 2005, outstanding forward foreign exchange contracts to sell Euro Dollar with a notional principal value of approximately EUR435,000 (2004: EUR340,000) equivalent, outstanding forward precious metals contracts to purchase gold and silver with a notional principal value of approximately US$4,979,000 (2004: US$4,324,000) equivalent, and written currency options to sell Euro Dollar, purchase Euro and US Dollar with notional principal values of EUR11,280,000, EUR1,800,000 and Nil (2004: EUR6,800,000, Nil and US$1,000,000) equivalent respectively. Such outstanding contracts were scheduled to settle or expire, through April 2006.

(ii) At 31st May, 2005, the Group had outstanding interest rate swap contracts with a notional amount of approximately $120 million (2004: Nil). Such outstanding contracts were scheduled to settle or expire, through August 2007.

Save as disclosed above, neither the Group nor the Company had any significant commitments at 31st May, 2005.

35. RELATED PARTY AND CONNECTED TRANSACTIONS

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

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

	Year ended 31st May, 2005	Year ended 31st May, 2004
	$'000	*$'000*
Sales of goods/services [5] ("Trading transactions")		
Comtesse Accessoires GmbH (formerly known as Comtesse Accessoires GmbH & Co.)[1]	28	9
Bartelli Leather Products Limited[1]	67	—
Haru Japan Corporation, Inc.[1]	2	—
Eco-Haru (Far East) Limited[1]	1,778	174
Egana-Haru Mfr. Corp. Limited[1]	111	676
Egana India Private Limited[1]	129	—
EganaGoldpfeil Benelux Time B.V.[1]	—	8,864
EganaGoldpfeil	—	5
EganaGoldpfeil (Switzerland) Limited[1]	5,434	4,319
EganaGoldpfeil Italia s.r.l.[1]	36	43
Goldpfeil Guam, Inc.[1]	—	1
Junghans Uhren GmbH[1]	23	—
Goldpfeil GmbH[1]	30	—
Egana of Switzerland (Far East) Limited[1]	9	—
Zeitmesstechnik GmbH[1]	19	39
Purchases of goods[6] ("Trading transactions")		
Egana of Switzerland (Far East) Limited[1]	5	39
EganaGoldpfeil Benelux Time B.V.[1]	—	878
EganaGoldpfeil (Switzerland) Limited[1]	103	—
Egana-Haru Mfr. Corp. Limited[1]	1,443	1,742
European Technology & Logistic Center GmbH[1]	13	9
Bartelli Leather Products Limited[1]	62	178
Zeitmesstechnik GmbH[1]	2,982	2,700
EganaGoldpfeil Italia s.r.l.[1]	28	—

	Year ended 31st May, 2005	Year ended 31st May, 2004
	$'000	*$'000*
Interest income		
Centreline Group Limited[1]	1,030	1,719
Allocation of operating costs[7]		
Egana Deutschland GmbH[1]	75,636	108,559
EganaGoldpfeil Europe (Holdings) GmbH[1]	2,602	—
European Technology & Logistic Center GmbH[1]	21,705	—
Sub-tenancy agreement[7]		
Egana Deutschland GmbH[1]	—	2,720
Consultancy fee expenses		
International Taxation Advisory Services Limited[3]	568	1,449
Interest expenses		
European Technology & Logistic Center GmbH[1]	62	—
Rossolini Limited[4]	7	8
Rental expenses[7]		
Eco-Haru Property Investments Limited[1]	38	38
EganaGoldpfeil Benelux Time B.V.[1]	—	220
EganaGoldpfeil Europe (Holdings) GmbH[1]	1,214	—
Management fee expenses		
EganaGoldpfeil	6,952	6,705
Egana-Haru Mfr. Corp. Limited[1]	3,672	3,529
Royalty fee expenses[8]		
P.C. International Marketing Limited[1]	9,005	8,659
Goldpfeil GmbH[1]	1,520	1,422
Egana Deutschland GmbH[1]	269	199
Bartelli Leather Products Limited[1]	6,433	6,503
JOOP! GmbH[2]	5,381	6,100

Notes:

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

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

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

(4) Associated company of the Group.

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

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

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

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

(b) During the year, the Group had transactions with related parties (as disclosed in Note 35(a) above), all of which were also deemed to be connected persons (as defined in the Rules Governing the Listing of Securities on the Stock Exchange), except for consultancy fees paid to International Taxation Advisory Services Limited and interest expenses paid to Rossolini Limited.

(c) The amounts due from fellow subsidiaries mainly arose from the allocation of operating costs to fellow subsidiaries according to the relevant agreements entered into between the Group companies and their fellow subsidiaries outside the Group (see Note 35(a)(7) for details).

(d) Except for an amount due to an associated company of approximately $90,000 (2004: $91,000) (see Note 16) and a royalty deposit paid to a fellow subsidiary of approximately $7,406,000 (2004: $14,079,000) (see Note 20) which were interest-bearing at commercial rates, all other balances with related parties and Directors were unsecured, non-interest bearing and repayable within one year.

36. SUBSEQUENT EVENT

On 9th August, 2005, the Stock Exchange granted the listing approval to the Company for the issuance of Tranche 4a convertible bonds of up to US$5,000,000 to Merrill Lynch. As at 14th September, 2005, Merrill Lynch has exercised its conversion rights to convert US$2,000,000 Tranche 4a convertible bonds into ordinary shares of the Company, resulting in an increase in shareholders' funds of approximately $15,600,000. The outstanding US$3,000,000 Tranche 4a convertible bonds will be expiring on 31st March, 2009.

3. UNAUDITED INTERIM RESULTS OF THE GROUP FOR THE SIX MONTHS ENDED 30TH NOVEMBER, 2005

The following information has been extracted from the unaudited condensed interim consolidated financial statements of the Group for the six months ended 30th November, 2005, the page numbers in the statements below refer to the 2005/2006 interim report of the Company.

The board of directors (the "Board") of Egana Jewellery & Pearls Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th November, 2005 together with the comparative figures for the six months ended 30th November, 2004 which are summarised as under. These results have been reviewed by the Audit Committee of the Company.

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Six months ended 30th November, 2005 (Unaudited) HK$'000	Six months ended 30th November, 2004 (Unaudited and restated) HK$'000
Turnover	3	433,124	420,668
Cost of sales		(234,511)	(232,461)
Gross profit		198,613	188,207
Other revenues		22,647	21,818
Distribution costs		(66,267)	(76,270)
Administrative expenses		(77,297)	(72,790)
Operating profit		77,696	60,965
Finance costs		(18,695)	(10,511)
Profit before taxation	3, 4	59,001	50,454
Taxation	5	(6,423)	(2,022)
Profit for the period		52,578	48,432
Attributable to:			
Equity holders of the Company		52,578	48,431
Minority interests		—	1
		52,578	48,432
Dividends	6	11,264	21,316
Earnings per share	7		
Basic		12.48 cents	14.33 cents
Diluted		12.11 cents	N/A
Dividend per share			
Basic		2.67 cents	6.31 cents
Diluted		2.59 cents	N/A

Note: There were no extraordinary or exceptional items for the above financial periods.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months ended 30th November, 2005	Six months ended 30th November, 2004
	(Unaudited)	*(Unaudited and restated)*
	HK$'000	*HK$'000*
Opening balance — Total equity, as previously reported	659,924	511,597
Retrospective adjustment — reclassification of leasehold land from fixed assets	529	1,577
Retrospective adjustment — reclassification of minority interests to equity	41	41
Opening balance — Total equity, as restated	660,494	513,215
(Deficit)/Surplus on revaluation of available-for-sale financial assets/investments in non-trading securities	(25,410)	72
Exchange differences on translation of the financial statements of foreign subsidiaries	(10,008)	10,464
Net (expense)/income recognised directly in equity	(35,418)	10,536
Net profit for the period	52,578	48,432
Disposal of available-for-sale financial assets	1,085	—
Issue of share capital upon conversion of convertible bonds	12,598	31,753
Premium arising from conversion of convertible bonds	14,702	34,529
Expenses incurred in connection with conversion of convertible bonds	(2)	—
Equity component of convertible bonds	8,100	—
Share of translation reserve by minority shareholder of a subsidiary	(2)	3
Dividends	(8,110)	(15,239)
Closing balance — Total equity	706,025	623,229

CONSOLIDATED BALANCE SHEET

	Notes	As at 30th November, 2005 *(Unaudited)* *HK$'000*	As at 31st May, 2005 *(Audited and restated)* *HK$'000*
Non-current assets			
Fixed assets	8	44,070	39,925
Leasehold land	9	4,581	4,645
Intangible assets	10	108,158	114,965
Interest in an associated company		(59)	(58)
Investments in non-trading securities	11	—	150,760
Available-for-sale financial assets	11	87,090	—
Deferred tax assets		12,091	16,645
		255,931	326,882
Current assets			
Inventories		339,063	269,493
Accounts receivable, net	12	172,000	85,367
Royalty deposit		3,797	7,406
Deposits, prepayments and other receivables		155,008	108,004
Due from fellow subsidiaries		32,131	97,628
Due from a related company		1,098	829
Derivative financial instruments		1,773	—
Investments held for trading		106	—
Short-term investments		—	113
Tax recoverable		2,189	—
Cash and cash equivalents		467,288	418,149
		1,174,453	986,989
Current liabilities			
Accounts payable	13	(115,791)	(69,614)
Accruals and other payables		(56,361)	(58,646)
Bills payable		(66,349)	(64,514)
Derivative financial instruments		(1,063)	—
Short-term bank borrowings	14	(243,873)	(229,043)
Current portion of long-term bank borrowings	14	(59,672)	(54,776)
Current portion of other long-term liabilities		(523)	(692)
Due to fellow subsidiaries		(33,378)	(9,391)
Due to a related company		—	(1,942)
Due to Directors		(300)	(255)
Dividend payable		(8,110)	—
Taxation payable		—	(1,026)
		(585,420)	(489,899)
Net current assets		589,033	497,090
Total assets less current liabilities		844,964	823,972

CONSOLIDATED BALANCE SHEET

	Notes	As at 30th November, 2005 (Unaudited) HK$'000	As at 31st May, 2005 (Audited and restated) HK$'000
Non-current liabilities			
Long-term bank borrowings	14	(128,000)	(156,791)
Other long-term liabilities		(4,609)	(4,813)
Convertible bonds		(3,600)	—
Deferred tax liabilities		(2,730)	(1,874)
		(138,939)	(163,478)
Net assets		706,025	660,494
Capital and reserves			
Share capital	15	219,180	206,582
Reserves	16	475,542	445,974
Proposed interim/final dividend		11,264	7,897
Equity attributable to equity holders of the Company		705,986	660,453
Minority interests	16	39	41
Total equity		706,025	660,494

CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30th November, 2005	Six months ended 30th November, 2004
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Cash generated by operations	24,387	227,335
Interest paid	(11,851)	(6,951)
Tax paid	(4,686)	(4,945)
Net cash from operating activities	7,850	215,439
Net cash from/(used in) investing activities	6,814	(124,385)
Net cash from financing activities	34,583	10,265
Net increase in cash and cash equivalents	49,247	101,319
Cash and cash equivalents at 1st June, 2005/1st June, 2004	418,149	199,835
Effect of foreign exchange rate changes	(108)	811
Cash and cash equivalents at 30th November, 2005/ 30th November, 2004	467,288	301,965
Analysis of cash and cash equivalents:		
Cash and bank balances	155,281	75,222
Promissory notes	312,007	226,743
	467,288	301,965

Notes:

1. **BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES**

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

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

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the profit and loss account, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associated companies have been changed under HKAS 1 "Presentation of Financial Statements" and HKAS 27 "Consolidated and Separate Financial Statements", respectively. The changes in presentation have been applied retrospectively.

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

Trademarks and goodwill

Subsequent to 30th November, 2004, the Group decided to early adopt HKFRS 3 "Business Combinations" together with HKAS 36 "Impairment of Assets" and HKAS 38 "Intangible Assets" in 2005. Since 1st June, 2004, amortisation of the acquired trademarks and positive goodwill has been discontinued. As a result, the profit attributable to equity holders of the Company for the six months ended 30th November, 2004 is increased by approximately HK$3.7 million as compared with that previously disclosed in the previous interim accounts.

Leasehold land

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

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

The new accounting policies have been adopted retrospectively, with the opening balances of retained profits and the comparative information adjusted for the amounts relating to prior period. As a result, the opening retained profits as at 1st June, 2005 is increased by approximately HK$0.5 million. The adoption of HKAS 17 has no material impact on the Group's results for the current and prior periods.

Financial instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosures and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS

39, which is effective for accounting periods beginning on or after 1st January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

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

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

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

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

Non-trading securities

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

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

Trading securities

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

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

On 1st June, 2005, following the adoption of HKAS 39, the Group has re-designated "investments in non-trading securities" amounting to approximately HK$150,760,000 and "short-term investments" (including "investments in trading securities") amounting to approximately HK$113,000 recorded in the consolidated balance sheet as "available-for-sale financial assets" and "investments held for trading", respectively.

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

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

(b) ***Derivative financial instruments***

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

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

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

Up to 31st May, 2005, assets related to derivative financial instruments which are marked to market are included in "deposits, prepayments and other receivables" in the accounts. Liabilities resulting from such contracts are included in "accounts payable, accruals and other payables" in the accounts.

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

(c) ***Derecognition***

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

(d) ***Convertible bonds***

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

Minority interests

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

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

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

Gain or loss arising from transactions with minority interests are now recognised directly in equity.

Share-based payments

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

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

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

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

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

2. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

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

	As at 31st May, 2005 *(previously reported)*	Retrospective adjustments HKAS 17	HKAS 27	As at 31st May, 2005 *(restated)*	Adjustments on 1st June, 2005 HKAS 39	As at 1st June, 2005 *(restated)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fixed assets	44,041	(4,116)	—	39,925	—	39,925
Leasehold land	—	4,645	—	4,645	—	4,645
Intangible assets	114,965	—	—	114,965	—	114,965
Interest in an associated company	(58)	—	—	(58)	—	(58)
Investments in non-trading securities	150,760	—	—	150,760	(150,760)	—
Available-for-sale financial assets	—	—	—	—	150,760	150,760
Deferred tax assets	16,645	—	—	16,645	—	16,645
Inventories	269,493	—	—	269,493	—	269,493
Accounts receivable, net	85,367	—	—	85,367	—	85,367
Royalty deposit	7,406	—	—	7,406	—	7,406
Deposits, prepayments and other receivables	108,004	—	—	108,004	—	108,004
Due from fellow subsidiaries	97,628	—	—	97,628	—	97,628
Due from a related company	829	—	—	829	—	829
Investments held for trading	—	—	—	—	113	113
Short-term investments	113	—	—	113	(113)	—
Cash and cash equivalents	418,149	—	—	418,149	—	418,149
Accounts payable	(69,614)	—	—	(69,614)	—	(69,614)
Accruals and other payables	(58,646)	—	—	(58,646)	—	(58,646)
Bills payable	(64,514)	—	—	(64,514)	—	(64,514)
Short-term bank borrowings	(229,043)	—	—	(229,043)	—	(229,043)
Current portion of long-term bank borrowings	(54,776)	—	—	(54,776)	—	(54,776)
Current portion of other long-term liabilities	(692)	—	—	(692)	—	(692)
Due to fellow subsidiaries	(9,391)	—	—	(9,391)	—	(9,391)
Due to a related company	(1,942)	—	—	(1,942)	—	(1,942)
Due to Directors	(255)	—	—	(255)	—	(255)
Taxation payable	(1,026)	—	—	(1,026)	—	(1,026)
Long-term bank borrowings	(156,791)	—	—	(156,791)	—	(156,791)
Other long-term liabilities	(4,813)	—	—	(4,813)	—	(4,813)
Deferred tax liabilities	(1,874)	—	—	(1,874)	—	(1,874)
Total effects on assets and liabilities	659,965	529	—	660,494	—	660,494
Minority interests	(41)	—	41	—	—	—
	659,924	529	41	660,494	—	660,494
Share capital	206,582	—	—	206,582	—	206,582
Reserves	445,445	529	—	445,974	—	445,974
Proposed final dividend	7,897	—	—	7,897	—	7,897
Equity attributable to equity holders of the Company	659,924	529	—	660,453	—	660,453
Minority interests	—	—	41	41	—	41
Total effects on total equity	659,924	529	41	660,494	—	660,494

3. SEGMENTAL INFORMATION

(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 two main business segments:

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

- Investments — investments in strategic investments and investments held for trading and available-for-sale financial assets (trading and non-trading securities in prior period). Strategic investments include investments in a private closed-end fund (in prior period) and an unlisted company which could bring medium or long-term synergetic benefits to the Group's businesses such as strategic alliance and partnership with various distribution business in Asia for furtherance of the Group's business penetration in the region.

	Six months ended 30th November, 2005		
	Jewellery products	**Investments**	**Group**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	433,124	—	433,124
Segment results	75,964	1,732	77,696
Finance costs			(18,695)
Profit before taxation			59,001
Taxation			(6,423)
Profit for the period			52,578
Attributable to:			
Equity holders of the Company			52,578
Minority interests			—
			52,578
Segment assets	1,343,247	87,196	1,430,443
Interest in an associated company	(59)	—	(59)
Total assets	1,343,188	87,196	1,430,384
Segment liabilities	(724,359)	—	(724,359)
Total liabilities	(724,359)	—	(724,359)
Capital expenditure	9,191	—	9,191
Depreciation	4,699	—	4,699
Amortisation	1,099	—	1,099
Write back of provision for bad debts	80	—	80
Bad debt expense	284	—	284
Write back of provision for inventory	2,468	—	2,468

	Six months ended 30th November, 2004 *(restated)*		
	Jewellery products	**Investments**	**Group**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	420,668	—	420,668
Segment results	60,965	—	60,965
Finance costs			(10,511)
Profit before taxation			50,454
Taxation			(2,022)
Profit for the period			48,432
Attributable to:			
Equity holders of the Company			48,431
Minority interests			1
			48,432
Capital expenditure	3,545	—	3,545
Depreciation	3,915	—	3,915
Amortisation	1,117	—	1,117
Write-back of provision for bad debts	291	—	291
Bad debt expense	331	—	331
Write back of provision for inventory	22,748	—	22,748

	As at 31st May, 2005 *(restated)*		
	Jewellery products	**Investments**	**Group**
	HK$'000	*HK$'000*	*HK$'000*
Segment assets	1,163,056	150,873	1,313,929
Interest in an associated company	(58)	—	(58)
Total assets	1,162,998	150,873	1,313,871
Segment liabilities	(653,377)	—	(653,377)
Total liabilities	(653,377)	—	(653,377)

(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 were based on the destination of delivery of merchandise. Segment assets and capital expenditure were based on the geographical location of the assets.

	Six months ended 30th November, 2005			**As at 30th November, 2005**
	Turnover	**Segment results**	**Capital expenditure**	**Total assets**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Europe	363,305	75,720	213	488,005
America	45,428	(2,988)	1,105	74,919
Asia Pacific	24,391	4,964	7,873	867,519
	433,124	77,696	9,191	1,430,443
Interest in an associated company				(59)
Total assets				1,430,384

	Six months ended 30th November, 2004 *(restated)*			**As at 31st May, 2005** *(restated)*
	Turnover	**Segment results**	**Capital expenditure**	**Total assets**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Europe	348,351	58,460	455	454,256
America	43,358	(1,981)	1,179	50,947
Asia Pacific	28,959	4,486	1,911	808,726
	420,668	60,965	3,545	1,313,929
Interest in an associated company				(58)
Total assets				1,313,871

4. PROFIT BEFORE TAXATION

The Group's profit before taxation is arrived at after crediting and charging the following:

	Six months ended	
	30th November, 2005	**30th November, 2004**
		(restated)
	HK$'000	*HK$'000*
Crediting:		
Interest Income	12,872	7,931
Exchange gain, net	—	7,129
Gain on derivative financial instruments		
— forward foreign exchange contracts	1,040	—
— forward gold contracts	371	—
— currency options	2,564	—
Charging:		
Depreciation of fixed assets	4,699	3,915
Amortisation of intangible assets	1,035	1,054
Amortisation of leasehold land	64	63
Interest expenses	12,305	6,369
Exchange loss, net	7,493	—
Net fair value loss on financial instruments — interest rate swaps	1,628	—

5. TAXATION

Taxation comprised:

	Six months ended	
	30th November, 2005	**30th November, 2004**
	HK$'000	*HK$'000*
Company and subsidiaries:		
Current taxation		
Hong Kong profits tax		
— Provision for current period	1,119	6,133
— Over-provision in prior periods	—	(4,879)
Overseas income tax		
— Provision for current period	324	314
— Under-provision in prior periods	—	25
	1,443	1,593
Deferred taxation — Recognised during the period	4,980	429
	6,423	2,022

Hong Kong profits tax was provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit arising in or derived from Hong Kong. Overseas income tax was provided by subsidiaries with overseas operations on their estimated assessable profits for the period at the tax rates applicable in the countries in which the subsidiaries operated.

6. INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK2.5 cents per share (2004: HK5.5 cents per share) payable on 29th March, 2006 to shareholders whose names appear on the register of members of the Company on 15th March, 2006.

7. EARNINGS PER SHARE

(a) Basic earnings per share

The basic earnings per share was calculated based on the consolidated profit attributable to equity holders of the Company for the period of approximately HK$52,578,000 (2004: HK$48,431,000) and the weighted average number of ordinary shares of approximately 421,143,000 (2004: 337,969,000) in issue during the period.

(b) Diluted earnings per share

During the period ended 30th November, 2005, diluted earnings per share was calculated based on the adjusted consolidated profit attributable to equity holders of the Company for the period of approximately HK$52,616,000 and the weighted average number of ordinary shares of approximately 434,432,000 that would be in issue having adjusted for the effects of all dilutive potential ordinary shares issuable during the period.

During the period ended 30th November, 2004, the Company's share options exercise price was above the average fair value of one ordinary share, thus there were no dilutive potential ordinary shares.

(c) Reconciliation

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

	Six months ended	
	30th November, 2005	**30th November, 2004** *(restated)*
	HK$'000	*HK$'000*
Profit attributable to equity holders of the Company used in calculating basic earnings per share	52,578	48,431
Interest savings in respect of convertible bonds	38	—
Profit attributable to equity holders of the Company used in calculating diluted earnings per share	52,616	48,431

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

	Six months ended 30th November, 2005	Six months ended 30th November, 2004
	HK$'000	*HK$'000*
Weighted average number of ordinary shares used in calculating basic earnings per share	421,143,000	337,969,000
Dilutive potential effect in respect of convertible bonds	13,289,000	—
Weighted average number of ordinary shares used in calculating diluted earnings per share	434,432,000	337,969,000

8. FIXED ASSETS

	Property, plant and equipment
	HK$'000
Carrying value as at 1st June, 2005, as previously reported	44,041
Effect of adopting HKAS 17	(4,116)
Carrying value as at 1st June, 2005, as restated	39,925
Additions	9,181
Exchange adjustments and disposals	(337)
Charge for the period	(4,699)
Carrying value as at 30th November, 2005	44,070

9. LEASEHOLD LAND

	HK$'000
Carrying value as at 1st June, 2005, as previously reported	—
Effect of adopting HKAS 17	4,645
Carrying value as at 1st June, 2005, as restated	4,645
Charge for the period	(64)
Carrying value as at 30th November, 2005	4,581

10. INTANGIBLE ASSETS

	HK$'000
Carrying value as at 1st June, 2005	114,965
Additions	10
Exchange adjustments and disposals	(5,782)
Charge for the period	(1,035)
Carrying value as at 30th November, 2005	108,158

11. INVESTMENTS IN NON-TRADING SECURITIES/AVAILABLE-FOR-SALE FINANCIAL ASSETS

At 30th November, 2005, the available-for-sale financial assets were stated at fair values which were determined by the Directors or according to quoted market prices and the revaluation deficit of approximately HK$25,410,000 (2004: a surplus of HK$72,000) was recorded in the revaluation reserve. In the opinion of the Directors, there were no indication of impairment in the carrying values of the investments/financial assets.

12. ACCOUNTS RECEIVABLE AGING ANALYSIS

The Group allows an average credit period of 30-120 days to its trade customers. Aging analysis of accounts receivable after provision for bad and doubtful debts is as follows:

	As at 30th November, 2005	**As at 31st May, 2005**
	HK$'000	*HK$'000*
In current month	120,374	58,995
Between 1 to 2 months	26,637	6,198
Between 2 to 3 months	2,401	1,589
Between 3 to 4 months	4,573	1,828
Over 4 months	18,015	16,757
	172,000	85,367

13. ACCOUNTS PAYABLE AGING ANALYSIS

Aging analysis of accounts payable is as follows:

	As at 30th November, 2005	As at 31st May, 2005
	HK$'000	*HK$'000*
In current month	74,037	51,750
Between 1 to 2 months	9,715	4,513
Between 2 to 3 months	16,733	4,675
Between 3 to 4 months	13,839	3,578
Over 4 months	1,467	5,098
	115,791	69,614

14. BANK BORROWINGS

(a) Short-term bank borrowings comprised

	As at 30th November, 2005	As at 31st May, 2005
	HK$'000	*HK$'000*
Bank loans and overdrafts	196,043	168,772
Trust receipts and import loans	47,830	60,271
	243,873	229,043

(b) **Long-term bank borrowings**

	As at 30th November, 2005	**As at 31st May, 2005**
	HK$'000	*HK$'000*
Repayable within a period of		
— not exceeding 1 year		
Secured	—	—
Unsecured	59,672	54,776
— more than 1 year, but not exceeding 2 years		
Secured	—	—
Unsecured	108,000	116,791
— more than 2 years, but not exceeding 5 years		
Secured	—	—
Unsecured	20,000	40,000
	187,672	211,567
Less: Amounts repayable within 1 year included under current liabilities	(59,672)	(54,776)
	128,000	156,791

15. SHARE CAPITAL

	Number of shares	**Nominal value of each share**	**Nominal value of shares**
		HK$	*HK$'000*
Balance as at 1st June, 2005	413,164,452	0.50	206,582
Issue upon exercise of convertible bonds	25,194,994	0.50	12,598
Balance as at 30th November, 2005	438,359,446	0.50	219,180

16. RESERVES AND MINORITY INTERESTS

	Convertible bonds	Share premium account	Exchange translation reserve	Retained profits	Goodwill	Revaluation reserve	Other reserve	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance as at 1st June, 2005, as previously reported	—	96,724	13,838	333,435	(13,149)	22,425	69	453,342	—	453,342
Effect of adopting HKAS 17	—	—	—	529	—	—	—	529	—	529
Effect of adopting HKAS 27	—	—	—	—	—	—	—	—	41	41
Balance as at 1st June, 2005, as restated	—	96,724	13,838	333,964	(13,149)	22,425	69	453,871	41	453,912
Equity component of convertible bonds issued	22,802	—	—	—	—	—	—	22,802	—	22,802
Share premium arising from conversion of convertible bonds	(14,702)	14,702	—	—	—	—	—	—	—	—
Expenses incurred in connection with conversion of convertible bonds	—	(2)	—	—	—	—	—	(2)	—	(2)
Exchange differences arising on translation of overseas subsidiaries' accounts	—	—	(10,008)	—	—	—	—	(10,008)	—	(10,008)
Share of translation reserve by minority shareholder of a subsidiary	—	—	—	—	—	—	—	—	(2)	(2)
Deficit on revaluation of listed available-for-sale financial assets	—	—	—	—	—	(25,410)	—	(25,410)	—	(25,410)
Disposal of unlisted available-for-sale financial assets	—	—	—	—	—	1,085	—	1,085	—	1,085
Profit for the period	—	—	—	52,578	—	—	—	52,578	—	52,578
2005 final dividend	—	—	—	(8,110)	—	—	—	(8,110)	—	(8,110)
Interim dividend declared	—	—	—	(11,264)	—	—	—	(11,264)	—	(11,264)
Balance as at 30th November, 2005	8,100	111,424	3,830	367,168	(13,149)	(1,900)	69	475,542	39	475,581

17. RELATED PARTY TRANSACTIONS

(a) During the period, the Group had the following material transactions with EganaGoldpfeil (Holdings) Limited and its subsidiaries excluding the Group ("EganaGoldpfeil Group") which also constituted connected transactions as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited:

	Six months ended	
	30th November, 2005	**30th November, 2004**
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Sales of goods/services	1,658	3,791
Purchases of goods	2,559	2,746
Interest income	235	608
Interest expense	354	—
Allocation of operating costs	39,756	49,928
Management fee expenses	6,030	4,872
Royalty fee expenses	8,790	9,357

Notes:

i. Sales and purchases of goods were determined with reference to published prices and market conditions.

ii. Interest was charged at the commercial rate.

iii. Cost allocation, management fee expenses and royalty fee expenses were charged according to the terms of the relevant agreements.

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

	Six months ended	
	30th November, 2005	**30th November, 2004**
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Salaries and other short-term employee benefits	8,066	7,613
Termination benefits	97	—
Post-employment benefits	97	86
	8,260	7,699

(c) During the period, the Group paid royalties of approximately HK$2,529,000 (2004: HK$2,600,000) to a related company, JOOP! GmbH, which were charged according to the terms of the relevant agreement.

(d) The Group paid HK$Nil (2004: HK$567,800) to International Taxation Advisory Services Limited, of which Mr. David Wai Kwong WONG, a Director of the Company, was a director, for corporate advisory services rendered. The Directors consider that the fees were paid according to prices and conditions similar to those offered by other external consultants of the Group.

18. CONTINGENT LIABILITIES

There is no material contingent liabilities as at 30th November, 2005. As mentioned in Note 1, the Group's discounted bills with recourse, which were previously treated as contingent liabilities, have been accounted for as actual liabilities prospectively on or after 1st June, 2005 under HKAS 39.

4. INDEBTEDNESS

At the close of business on 30th June, 2006, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this document, the Group had outstanding bank borrowings of approximately HK$428 million, obligations under finance leases of approximately HK$0.3 million and other borrowings of approximately HK$51 million. The Group's banking facilities for bank borrowings of approximately HK$596 million were secured by unconditional and continuing corporate guarantee provided by the Group and cross guarantees among its subsidiaries. Certain inventories were pledged as security for banking facilities granted to certain subsidiaries of Group.

The Group had no material contingent liabilities as at 30th June, 2006.

As at the close of business on 30th June, 2006, save as disclosed in this section headed "Indebtedness" and apart from inter-group liabilities and normal trade and other payables in the ordinary course of the business of the Group, the Group did not have any outstanding mortgages, charges, debentures, loan capital or other similar indebtedness, or hire-purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the approximate exchange rates prevailing at the close of business on 30th June, 2006. The Directors have confirmed that there has been no material change in the Group's indebtedness and contingent liability position since 30th June, 2006.

5. MATERIAL CHANGES

The Directors confirm that save as disclosed in the interim results of the Group for the six months ended 30th November, 2005, there were no material changes in the financial or trading position or outlook of the Group since 31st May, 2005, the date to which the last published audited consolidated financial statements of the Company were made up, up to the Latest Practicable Date.

1. FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated results of the EganaGoldpfeil Group for each of the three financial years ended 31st May, 2003, 2004 and 2005 extracted from the 2002/2003, 2003/2004 and 2004/2005 annual reports of EganaGoldpfeil and unaudited consolidated results of the EganaGoldpfeil Group for the six months ended 30th November, 2005 extracted from the 2005/2006 interim report of EganaGoldpfeil:

	For the six months ended 30th November, 2005	Year ended 31st May, 2005	2004	2003
	(unaudited)	*(audited)*	*(audited)*	*(audited)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	2,832,464	3,716,706	3,513,434	2,577,917
Cost of sales	(1,609,977)	(2,188,621)	(2,167,686)	(1,567,640)
Gross profit	1,222,487	1,528,085	1,345,748	1,010,277
Other revenues	54,107	156,006	111,495	174,174
Distribution costs	(612,003)	(810,515)	(683,990)	(535,779)
Administrative expenses	(423,067)	(554,965)	(544,604)	(451,067)
Operating profit	241,524	318,611	228,649	197,605
Finance costs	(64,285)	(93,507)	(91,842)	(83,254)
Profit before share of profit/(loss) of associated companies	177,239	225,104	136,807	114,351
Share of profit/(loss) of associated companies	13,633	9,468	5,088	12,267
Profit before taxation	190,872	234,572	141,895	126,618
Taxation	(22,727)	2,818	15,609	(20,727)
Profit for the period/year	168,145	237,390	157,504	105,891
Minority interests		(26,695)	(15,620)	(17,842)
Profit attributable to shareholders		210,695	141,884	88,049
Attributable to:				
Equity holders of the Company	147,196			
Minority interests	20,949			
	168,145			
Dividends	36,003	75,425	52,834	45,279
Earnings per share				
Basic	11.56 cents	17.51 cents	12.35 cents	7.81 cents
Diluted	11.33 cents	16.39 cents	11.48 cents	7.73 cents
Dividend per share				
Basic	2.83 cents	6.27 cents	4.60 cents	4.02 cents
Diluted	2.80 cents	5.86 cents	4.32 cents	3.97 cents

Note: There were no extraordinary or exceptional items for the above financial years/period.

There were no qualifications in the auditors' report in respect of each of the three financial years ended 31st May 2003, 2004 and 2005.

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE EGANAGOLDPFEIL GROUP FOR THE YEAR ENDED 31ST MAY, 2005

The following information has been extracted from the audited consolidated financial statements of the EganaGoldpfeil Group for the year ended 31st May, 2005, the page numbers in the statements below refer to the 2004/2005 annual report of EganaGoldpfeil. For the purpose of the extracts set out below, the "Company" means EganaGoldpfeil and the "Group" means "EganaGoldpfeil Group".

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st May, 2005

	Notes	**2005** *HK$'000*	**2004** *HK$'000*
Turnover	3	3,716,706	3,513,434
Cost of sales		(2,188,621)	(2,167,686)
Gross profit		1,528,085	1,345,748
Other revenues	4	156,006	111,495
Distribution costs		(810,515)	(683,990)
Administrative expenses		(554,965)	(544,604)
Operating profit	3, 5	318,611	228,649
Finance costs	6	(93,507)	(91,842)
Profit before share of profit/(loss) of associated companies		225,104	136,807
Share of profit/(loss) of associated companies		9,468	5,088
Profit before taxation		234,572	141,895
Taxation	7	2,818	15,609
Profit after taxation		237,390	157,504
Minority interests		(26,695)	(15,620)
Profit attributable to shareholders	8, 29	210,695	141,884
Dividends	9	75,425	52,834
Earnings per share	10		
Basic		17.51 cents	12.35 cents
Diluted		16.39 cents	11.48 cents

CONSOLIDATED BALANCE SHEET

As at 31st May, 2005

	Notes	**2005**	**2004**
		HK$'000	*HK$'000*
Non-current assets			
Fixed assets	13	368,620	222,366
Intangible assets	14	790,100	438,471
Deferred tax assets	15(b)	128,088	104,088
Interests in associated companies	17	161,440	130,641
Investments in non-trading securities	18	527,876	332,503
Long-term receivables		—	30,000
		1,976,124	1,258,069
Current assets			
Inventories	19	1,160,671	895,286
Accounts receivable, net	20	450,036	854,277
Deposits, prepayments and other receivables		411,204	330,725
Due from an associated company	34(c)	11,528	9,595
Short-term investments	21	83,317	126,549
Cash and cash equivalents	30(f)	812,895	562,684
		2,929,651	2,779,116
Current liabilities			
Accounts payable, accruals and other payables	22	(706,030)	(584,844)
Bills payable		(166,877)	(141,448)
Provisions	23	(7,646)	(25,968)
Short-term bank borrowings	24	(1,121,902)	(639,540)
Current portion of long-term liabilities	25	(127,226)	(179,748)
Convertible bonds	26	(23,400)	—
Current portion of pensions and other post retirement obligations	27(b)	(14,724)	(14,810)
Due to associated companies	34(c)	(4,693)	(1,332)
Due to Directors	34(d)	(481)	(11)
Loan from a minority shareholder	34(e)	(1,324)	—
Taxation payable		(17,695)	(25,593)
		(2,191,998)	(1,613,294)

CONSOLIDATED BALANCE SHEET

As at 31st May, 2005

	Notes	**2005** *HK$'000*	**2004** *HK$'000*
Net current assets		737,653	1,165,822
Total assets less current liabilities		2,713,777	2,423,891
Non-current liabilities			
Long-term liabilities	25	(463,851)	(409,347)
Convertible bonds	26	—	(226,200)
Pensions and other post retirement obligations	27(b)	(215,928)	(201,945)
Deferred tax liabilities	15(b)	(9,606)	(3,167)
		(689,385)	(840,659)
Minority interests		(275,968)	(150,004)
Net assets		1,748,424	1,433,228
Capital and reserves			
Share capital	28	1,271,286	1,171,829
Reserves	29	477,138	261,399
Shareholders' funds		1,748,424	1,433,228

BALANCE SHEET
As at 31st May, 2005

	Notes	**2005** *HK$'000*	**2004** *HK$'000*
Non-current assets			
Interests in subsidiaries	16	417,930	396,787
Investments in non-trading securities	18	51,040	50,561
		468,970	447,348
Current assets			
Dividend receivable from a subsidiary		30,000	20,000
Deposits, prepayments and other receivables		635	492
Due from subsidiaries	16(a)	1,616,209	1,565,499
Tax recoverable		1,654	1,654
Cash and bank balances		15,954	73,583
		1,664,452	1,661,228
Current liabilities			
Accounts payable, accruals and other payables	22	(5,700)	(5,092)
Due to subsidiaries	16(a)	(82,889)	(68,779)
Due to a Director		(100)	—
Convertible bonds	26	(23,400)	—
Current portion of long-term liabilities	25	—	(46,000)
		(112,089)	(119,871)
Net current assets		1,552,363	1,541,357
Total assets less current liabilities		2,021,333	1,988,705
Non-current liabilities			
Long-term liabilities	25	(300,000)	(238,000)
Convertible bonds	26	—	(159,900)
		(300,000)	(397,900)
Net assets		1,721,333	1,590,805
Capital and reserves			
Share capital	28	1,271,286	1,171,829
Reserves	29	450,047	418,976
Shareholders' funds		1,721,333	1,590,805

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st May, 2005

	Notes	**2005** *HK$'000*	**2004** *HK$'000*
Total equity, beginning of year, as previously reported		1,433,228	1,276,707
Effect of change in accounting policy with respect to business combinations (Note 2(e)(i))	29	42,199	—
Total equity, beginning of year, as restated		1,475,427	1,276,707
Share of an associated company's revaluation surplus of fixed assets	29	7,513	19
Share of an associated company's exchange translation reserve	29	3	12
Revaluation of listed non-trading securities	29	9,427	4,218
Revaluation of unlisted non-trading securities	29	5,089	—
Revaluation of leasehold land and buildings	29	10,601	—
Deferred tax debited to revaluation reserve	29	(1,855)	—
Exchange differences arising on translation of the accounts of foreign subsidiaries and associated companies	29	(7,367)	(441)
Net gains not recognised in the profit and loss account		23,411	3,808
Profit attributable to shareholders	29	210,695	141,884
Realisation of reserves upon disposal of equity interest in an associated company	29	—	2,874
Realisation of reserves upon disposal of listed non-trading securities	29	(16,729)	—
Realisation of reserves upon disposal of unlisted non-trading securities	29	—	384
Realisation of reserves upon dissolution of unlisted non-trading securities	29	—	3,153
Realisation of reserves upon disposal of equity interest in a subsidiary	29	(514)	—
Realisation of reserves upon deemed disposal of equity interest in a subsidiary	29	—	3,486
Scrip and cash dividends	29	(60,676)	(57,537)
Shares issued under scrip dividend scheme	28	—	16,026
Share premium arising from issue of shares under scrip dividend scheme	29	—	7,372
Shares issued upon conversion of convertible bonds	28	99,457	23,827
Share premium arising from conversion of convertible bonds	29	17,421	11,260
Expenses incurred in connection with conversion of convertible bonds and issue of shares	29	(68)	(16)
Total equity, end of year		1,748,424	1,433,228

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st May, 2005

	Notes	**2005** *HK$'000*	**2004** *HK$'000*
Operating activities			
Net cash inflow generated from operations	30(a)	397,513	70,022
Interest paid		(65,544)	(65,715)
Hong Kong profits tax paid		(5,742)	(1,691)
Overseas profits tax paid		(8,193)	(10,576)
Hong Kong profits tax refund		1,130	1,540
Overseas profits tax refund		1,652	2,305
Net cash inflow/(outflow) from operating activities		320,816	(4,115)
Investing activities			
Purchase of fixed assets		(66,977)	(48,573)
Proceeds from disposal of fixed assets		3,542	28,379
Purchase of intangible assets		(128,281)	(10,559)
Proceeds from disposal of intangible assets		603	12
Interest received		43,192	33,128
Dividends received		2,401	7,816
Purchase of subsidiaries	30(c)	(20,566)	(16,647)
Purchase of businesses	30(d)	—	(22,382)
Purchase of additional interests in subsidiaries		(107,142)	—
Purchase of interest in an associated company		—	(53,055)
Subscription of rights shares of an associated company		(12,962)	—
Proceeds from dissolution of non-trading securities		—	28,774
Disposal of interests in subsidiaries	30(e)(i)	(862)	—
Partial disposal of interest in a subsidiary	30(e)(ii)	5,072	—
Proceeds from disposal of interests in associated companies		—	21,480
Proceeds from disposal of investments in non-trading securities		42,457	23,181
Increase in investments in non-trading securities		(182,660)	(99,461)
Redemption of short-term investments		50,226	33,840
Net cash outflow from investing activities		(371,957)	(74,067)
Net cash outflow before financing activities		(51,141)	(78,182)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st May, 2005

	Notes	**2005** *HK$'000*	**2004** *HK$'000*
Financing activities	30(b)		
Repayment of obligations under finance leases		(20,108)	(12,453)
Expenses incurred in connection with conversion of convertible bonds and issue of shares		(68)	(16)
Waiver of subscription rights and option in respect of convertible bonds		(19,575)	—
Net proceeds from/(repayment of) short-term bank borrowings		365,797	(13,022)
Net proceeds from long-term bank borrowings		47,408	138,598
(Repayment of)/net proceeds from other loans		(34,370)	20,734
Proceeds from issue of convertible bonds		39,000	195,000
Repayment of convertible bonds		(47)	(13)
Dividends paid		(60,676)	(34,139)
Dividends paid to minority shareholders of subsidiaries		(15,082)	(8,311)
Net cash inflow from financing activities		302,279	286,378
Increase in cash and cash equivalents		251,138	208,196
Cash and cash equivalents, beginning of year		562,684	352,266
Effect of foreign exchange rate changes		(927)	2,222
Cash and cash equivalents, end of year	30(f)	812,895	562,684

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. ORGANISATION AND OPERATIONS

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

(a) **Basis of preparation**

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention as modified by the revaluation of certain leasehold land and buildings and investments in non-trading and trading securities.

The HKICPA has issued a number of new or revised Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") (collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005.

During the year, the Group has adopted the following new HKFRSs:

HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKFRS 3	Business Combinations

The effect of adopting these new HKFRSs is set out below in Notes 2(e)(i) and (ii).

The Group has not early adopted other new HKFRSs except for those mentioned above in the accounts for the year ended 31st May, 2005.

The Group has already commenced an assessment of the impact of other new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(b) **Group accounting**

(i) *Consolidation*

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

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

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

The gain or loss on the disposal of a subsidiary is calculated by reference to the net assets at the date of disposal including the attributable amount of goodwill but does not include any attributable goodwill previously eliminated against reserves.

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

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

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

(ii) *Associated companies*

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

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

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

(iii) *Translation of foreign currencies*

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

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

For equity investments in foreign subsidiaries made by means of long-term loans and intra-group deferred trading balances which are intended to be, for all practical purposes, as permanent as equity, such loans and intra-group balances will be treated as part of the Group's net investment in the foreign subsidiary. Exchange differences arising on such loans and intra-group balances will be dealt with as adjustments to reserves in the consolidated accounts.

An exchange difference which arises on an intra-group monetary item, whether short-term or long-term will not be eliminated against a corresponding amount arising on other intra-group balances because the monetary item represents a commitment to convert one currency into another and exposes the Group to a gain or loss through currency fluctuations. Accordingly, in the consolidated profit and loss account of the Group, such an exchange difference is recognised as income or an expense.

(c) **Fixed assets**

(i) *Leasehold land and buildings*

Leasehold land and buildings are stated at valuation less accumulated depreciation. Independent valuations are performed periodically with the last valuation performed on 31st May, 2005. In the intervening years, the Directors review the carrying value of the properties and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

(ii) *Freehold land and buildings*

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

(iii) *Other fixed assets*

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

(iv) *Depreciation*

Leasehold land and buildings are depreciated over the shorter of the remaining period of the respective lease and estimated useful life. 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 on freehold land	2% to 5%
Leasehold improvements	10% to 50%
Furniture and equipment	15% to 33⅓%
Motor vehicles	25%

(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. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

(d) **Assets under leases**

(i) *Finance leases*

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

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

(ii) *Operating leases*

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

(e) **Intangible assets**

(i) *Goodwill/negative goodwill*

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

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

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

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

With the adoption of HKFRS 3, amortisation of goodwill has been discontinued since 1st June, 2004, and the related accumulated amortisation brought forward is transferred and eliminated against the cost of the goodwill. As a result, the Group's profit for the year ended 31st May, 2005 was increased by approximately $13,523,000. 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.

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, negative goodwill for acquisitions after 1st June, 2004, is recognised in profit and loss account immediately on acquisition. As a result, the Group's profit for the year ended 31st May, 2005 was increased by approximately $36,154,000.

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. As a result, the Group's opening retained profits as at 1st June, 2004 were increased by approximately $42,199,000 with the corresponding increase in the intangible assets and interests in associated companies of approximately $40,813,000 and $1,386,000, respectively and the Group's profit for the year ended 31st May, 2005 was decreased by approximately $4,929,000.

(ii) *Trademarks*

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

On the first time adoption of HKAS 38, 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 and accordingly, the Group's profit for the year ended 31st May, 2005 was increased by approximately $20,006,000. 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, the Group completed its annual impairment test for the trademarks by comparing their recoverable amounts to their carrying amounts as at 31st May, 2005. The Group appointed LCH (Asia-Pacific) Surveyors Limited, independent professional valuer, to conduct valuations of the trademarks based on value-in-use calculation. The resulting values of the trademarks as at 31st May, 2005 were significantly higher than their carrying amounts.

The valuations use cash flow projections based on financial estimates covering a twelve-month period, expected royalty rates deriving from the trademarks in the range of 6% to 10% and a discount rate of 10%. The cash flows are extrapolated using a steady long-term growth rate of 3.5% to 6%. This growth rate does not exceed the long-term average growth rate for luxury consumer markets in which the Group operates. The Directors have considered the above assumptions and valuations and also taken into account the business development going forward and the strategic distribution expansion worldwide. In the opinion of the Directors, there is no indication of impairment in the carrying amounts of the trademarks. The Directors believe that any reasonably foreseeable change in any of the above key assumptions would not cause the aggregate carrying amounts of the trademarks to exceed the aggregate recoverable amounts.

(iii) *Research and development costs*

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

(iv) *Other intangible assets*

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

(f) **Impairment of assets**

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

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

(g) **Investments in securities**

(i) *Non-trading securities*

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

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

(ii) *Trading securities*

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

(h) **Inventories**

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

(i) **Accounts receivable**

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

(j) **Cash and cash equivalents**

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

(k) **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.

(l) **Employee benefits**

(i) *Employee leave entitlements*

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

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

(ii) *Profit sharing and bonus plans*

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

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

(iii) *Pension obligations*

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

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

For defined benefits plans, pension costs are assessed using the projected unit credit method. The cost of providing pensions is charged to the profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans each year. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses are recognised over the average remaining service lives of employees. Past service costs are recognised as an expense on a straight-line basis over the average period until benefits become vested.

(m) **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the accounts and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax assets also arise from unused tax losses and unused tax credits. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arose from goodwill (or negative goodwill) or from initial recognition of assets and liabilities in a transaction (other than in a business combination) that affects neither the taxable profit nor the accounting profit.

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

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

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

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

(n) **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.

(o) **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.

(p) **Revenue recognition**

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

(i) *Sale of goods*

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

(ii) *Income from licensing of brandnames or trademarks*

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

(iii) *Income from assignment of brandnames or trademarks*

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

(iv) *Commission income*

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

(v) *Franchising income*

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

(vi) *Inspection service income*

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

(vii) *Interest income*

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

(viii) *Rental income*

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

(ix) *Dividend income*

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

(q) **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.

(r) **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.

(s) **Off-balance sheet financial instruments**

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

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

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

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

3. 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 and other trading and non-trading securities. 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.

	Year ended 31st May, 2005					
	Timepiece products	**Jewellery products**	**Leather & lifestyle products**	**Investments**	**Eliminations**	**Group**
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Turnover	1,735,909	851,352	1,129,445	—	—	3,716,706
Inter-segment revenue	18,231	7,666	7,440	—	(33,337)	—
Dividend income	—	—	—	1,753	—	1,753
Segment results	119,728	94,406	75,725	28,752	—	318,611
Finance costs						(93,507)

	Year ended 31st May, 2005					
	Timepiece products	Jewellery products	Leather & lifestyle products	Investments	Eliminations	Group
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Profit before share of profit/(loss) of associated companies						225,104
Share of profit/(loss) of associated companies						9,468
Profit before taxation						234,572
Taxation						2,818
Profit after taxation						237,390
Minority interests						(26,695)
Profit attributable to shareholders						210,695
Segment assets	1,410,827	1,162,527	1,642,787	528,194	—	4,744,335
Interests in associated companies	161,410	(58)	88	—	—	161,440
Total assets						4,905,775
Segment liabilities	(1,522,684)	(653,377)	(705,322)	—	—	(2,881,383)
Total liabilities						(2,881,383)
Capital expenditure	110,272	12,724	412,768	—	—	535,764
Depreciation	21,399	8,540	22,301	—	—	52,240
Amortisation of intangible assets	20,294	2,132	3,053	—	—	25,479
Amortisation of negative goodwill	—	—	—	—	—	—
Write-back of provision for bad debts	44	339	—	—	—	383
Bad debt expense	5,068	2,690	4,080	—	—	11,838
Write-back of provision for inventory	14,845	22,832	1,724	—	—	39,401
Provision for inventory	2,684	—	9,705	—	—	12,389

	Year ended 31st May, 2004					
	Timepiece products	**Jewellery products**	**Leather & lifestyle products**	**Investments**	**Eliminations**	**Group**
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Turnover	1,651,638	977,633	884,163	—	—	3,513,434
Inter-segment revenue	13,924	14,130	7,273	—	(35,327)	—
Dividend income	—	—	—	4,576	—	4,576
Segment results	94,480	85,924	45,348	2,897	—	228,649
Finance costs						(91,842)
Profit before share of profit/(loss) of associated companies						136,807
Share of profit/(loss) of associated companies						5,088
Profit before taxation						141,895
Taxation						15,609
Profit after taxation						157,504
Minority interests						(15,620)
Profit attributable to shareholders						141,884
Segment assets	1,671,346	1,022,451	872,505	340,242	—	3,906,544
Interests in associated companies	130,381	(59)	319	—	—	130,641
Total assets						4,037,185
Segment liabilities	(1,287,847)	(590,984)	(575,122)	—	—	(2,453,953)
Total liabilities						(2,453,953)

	Year ended 31st May, 2004					
	Timepiece products	Jewellery products	Leather & lifestyle products	Investments	Eliminations	Group
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Capital expenditure	126,943	93,115	1,531	—	—	221,589
Depreciation	22,591	10,225	19,355	—	—	52,171
Amortisation of intangible assets	25,206	9,289	10,968	—	—	45,463
Amortisation of negative goodwill	—	—	2,413	—	—	2,413
Write-back of provision for bad debts	74	—	825	—	—	899
Bad debt expense	16,067	2,217	1,671	—	—	19,955
Write-back of provision for inventory	22,326	5,435	39,086	—	—	66,847
Provision for inventory	—	—	—	—	—	—

(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, 2005			At 31st May, 2005
	Turnover	Segment results	Capital expenditure	Total assets
	$'000	*$'000*	*$'000*	*$'000*
Europe	2,751,139	245,714	355,232	2,414,602
America	156,161	(4,956)	5,837	84,625
Asia Pacific	809,406	77,853	174,695	2,245,108
	3,716,706	318,611	535,764	4,744,335
Interests in associated companies				161,440
Total assets				4,905,775

	Year ended 31st May, 2004			At 31st May, 2004
	Turnover	Segment results	Capital expenditure	Total assets
	$'000	*$'000*	*$'000*	*$'000*
Europe	2,431,755	176,526	206,475	1,741,421
America	130,868	(3,181)	3,074	69,524
Asia Pacific	950,811	55,304	12,040	2,095,599
	3,513,434	228,649	221,589	3,906,544
Interests in associated companies				130,641
Total assets				4,037,185

4. OTHER REVENUES

	2005	2004
	$'000	*$'000*
Interest income	46,858	34,303
Dividend income	1,753	4,576
Rental income, net of outgoings	5,806	2,288
Management fees	2,667	1,464
Gain on disposal of investments in non-trading securities, net	26,988	881
Gain on partial disposal of interest in an associated company	—	730
Gain on disposal of interest in an associated company	—	5,198
Gain on disposal of fixed assets	—	8,675
Gain on revaluation of listed trading securities	12	65
Gain on disposal of intangible assets	176	—
Gain on acquisition of subsidiaries *(Note 30(c))*	31,247	—
Gain on acquisition of additional interest in a subsidiary	4,907	—
Gain on partial disposal of interest in a subsidiary *(Note 30(e)(ii))*	3,943	—
Gain on revaluation of fixed assets	990	—
Franchising income	—	32,445
Redemption premium received on maturity of equity-linked notes	14,416	5,896
Others	16,243	14,974
	156,006	111,495

5. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2005	2004
	$'000	*$'000*
Crediting:		
Interest income from		
— associated companies	88	194
— bank deposits	2,263	2,552
— promissory notes	37,333	29,418
— equity-linked notes	2,855	1,449
— others	4,319	690
Amortisation of negative goodwill	—	2,413
Dividend income from		
— listed non-trading securities	1,753	286
— unlisted non-trading securities	—	4,290
Redemption premium received on maturity of equity-linked notes	14,416	5,896
Rental income, net of outgoings	5,806	2,288
Gain on disposal of investments in listed non-trading securities	26,988	—
Gain on disposal of investments in unlisted non-trading securities	—	881
Gain on revaluation of listed trading securities	12	65
Gain on partial disposal of interest in a subsidiary *(Note 30(e)(ii))*	3,943	—
Gain on disposal of a subsidiary	—	8
Gain on partial disposal of interest in an associated company	—	730
Gain on disposal of interest in an associated company	—	5,198
Gain on disposal of fixed assets	—	8,675
Gain on revaluation of fixed assets	990	—
Gain on disposal of intangible assets	176	—
Gain on acquisition of subsidiaries *(Note 30(c))*	31,247	—
Gain on acquisition of additional interest in a subsidiary	4,907	—
Franchising income	—	32,445
Repairing income	—	224
Write-back of provision for inventory	39,401	66,847
Write-back of provision for bad debts	383	899
Charging:		
Staff costs (including Directors' emoluments) *(Note 11)*	784,042	709,833
Depreciation on		
— owned fixed assets	51,772	51,673
— leased fixed assets	468	498
Loss on disposal of fixed assets	365	—
Loss on disposal of intangible assets	—	127
Amortisation of intangible assets *(Note 14)*	25,479	45,463
Amortisation of goodwill/negative goodwill arising on acquisition of associated companies, net	—	7,880

	2005	2004
	$'000	*$'000*
Loss on disposal of subsidiaries *(Note 30(e)(i))*	3,288	—
Loss on deemed disposal of interest in a subsidiary	30,549	3,429
Loss on dissolution of unlisted non-trading securities	—	2,625
Auditors' remuneration		
— current year	8,143	8,874
— prior year under-provision	481	6,807
Operating leases		
— land and buildings	110,306	76,763
— hire of furniture and equipment	23,153	24,865
Provision for inventory	12,389	—
Bad debt expense	11,838	19,955
Effect of changes in exchange rates *(a)*	17,188	11,725

(a) Since the acquisition of Junghans Uhren GmbH ("Junghans Germany") in 2000, a Euro-denominated inter-company loan of approximately EUR62 million was accounted for part of the Group's quasi-equity investment in Junghans Germany and no repayment had been made by Junghans Germany up to 31st May, 2002. Commencing from 1st June, 2002, due to the positive development and the profitability of Junghans Germany, the Group considers that the inter-company loan is more appropriately designated as a monetary item that requires a commitment to convert the Euro dollars to Hong Kong dollars and therefore exposes the Group to a gain or loss through currency fluctuations. Accordingly, a total exchange gain of $4,974,000, (2004: $11,154,000) was recognised by the Group in accordance with its accounting policy (Note 2(b)(iii)), as a result of the retranslation of the remaining outstanding balance of approximately EUR37 million (2004: EUR36 million) at the exchange rate ruling at the balance sheet date.

During the year, the Group has bought and sold certain foreign currency options from/to commercial banks. At 31st May, 2005, the Group's outstanding written foreign currency options with a notional principal value of EUR106,560,000 (2004: EUR71,600,000), JP¥430,000,000 (2004: JP¥118,640,000), CHF1,600,000 (2004: $Nil) and $Nil (2004: US$2,000,000) equivalent were marked to market in accordance with the Group's accounting policy on currency options (Note 2(s)) resulting in an unrealised exchange loss of approximately $1,796,000 (2004: a gain of $9,400,000).

The remaining amount of approximately $20,366,000 (2004: $32,279,000) was related to net losses arising from other foreign currency transactions and translations.

6. FINANCE COSTS

	2005	2004
	$'000	*$'000*
Interest on bank borrowings		
— wholly repayable within five years	60,990	54,667
— not wholly repayable within five years	1,318	1,345
Interest on other loans and notes payable		
— wholly repayable within five years	2,066	8,280
— not wholly repayable within five years	33	15
Interest element of finance leases	1,182	1,200
Interest on convertible bonds	551	999
Interest on advances from associated companies	287	—
Bank charges	27,080	25,336
	93,507	91,842

7. TAXATION

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

	2005	2004
	$'000	*$'000*
The Company and its subsidiaries		
Current taxation:		
Hong Kong profits tax		
— Provision for the year	2,640	13,535
— Over-provision in prior years	(6,426)	(4,534)
Overseas taxation		
— Provision for the year	4,084	6,489
— Under/(Over)-provision in prior years	2,004	(1,674)
Deferred taxation *(Note 15)*		
— Recognised during the year	(5,338)	(28,203)
	(3,036)	(14,387)
Share of taxation attributable to associated companies:		
Hong Kong profits tax	301	(1,297)
Overseas taxation	(83)	75
	(2,818)	(15,609)

Hong Kong profits tax has been provided at 17.5% (2004: 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 and associated companies with overseas operations at the rates of taxation prevailing in the countries in which these subsidiaries and associated companies operated.

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

	2005	**2004**
	$'000	*$'000*
Profit before taxation	234,572	141,895
Tax at the domestic profits tax rate of 17.5% (2004: 17.5%)	41,050	24,832
Tax effect of income not subject to taxation	(58,421)	(61,412)
Tax effect of expenses that are not deductible in determining taxable profit	15,423	14,736
Tax effect of utilisation of tax losses not previously recognised	(390)	(4,567)
Tax effect of tax losses not recognised	13,041	24,507
Tax effect of other temporary differences not recognised	304	5,390
Unutilised losses recognised	—	(1,594)
Over-provision in prior years	(4,422)	(6,208)
Effect of different tax rates of subsidiaries and associated companies operating in other jurisdictions	(6,814)	(6,938)
Others	(2,589)	(4,355)
Tax income for the year	(2,818)	(15,609)

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders included a profit of approximately $73,915,000 of the Company (2004: $1,348,000).

9. DIVIDENDS

	2005	**2004**
	$'000	*$'000*
Interim, paid, of 2.50 cents (2004: 2.00 cents) per ordinary share	30,830	23,407
Final, proposed, of 3.50 cents (2004: 2.50 cents) per ordinary share	44,595	29,427
	75,425	52,834

During the year, an interim dividend of approximately $30,830,000 (2004: $23,407,000) was declared and paid on 30th March, 2005.

At an annual general meeting to be held on 17th November, 2005, the Directors will recommend a final dividend of 3.50 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in the accounts, but will be reflected as an appropriation of retained profits for the year ending 31st May, 2006, if approved by shareholders at the said meeting.

10. EARNINGS PER SHARE

(a) Basic earnings per share

The basic earnings per share was calculated based on the consolidated profit attributable to shareholders for the year of approximately $210,695,000 (2004: $141,884,000) and the weighted average number of ordinary shares of approximately 1,203,081,000 (2004: 1,149,288,000) in issue during the year.

(b) Diluted earnings per share

The diluted earnings per share was calculated based on the adjusted consolidated profit attributable to shareholders for the year of approximately $211,034,000 (2004: $140,341,000) and the weighted average number of ordinary shares of approximately 1,287,629,000 (2004: 1,222,494,000) that would be in issue having been adjusted for the effects of all dilutive potential ordinary shares issuable during the year.

(c) Reconciliation

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

	2005	**2004**
	$'000	*$'000*
Profit attributable to shareholders used in calculating basic earnings per share	210,695	141,884
Dilutive potential effect in the earnings of a subsidiary in respect of convertible bonds of the subsidiary	—	(2,135)
Interest savings in respect of convertible bonds	339	592
Profit attributable to shareholders used in calculating diluted earnings per share	211,034	140,341

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

	2005	**2004**
Weighted average number of ordinary shares used in calculating basic earnings per share	1,203,081,000	1,149,288,000
Dilutive potential effect in respect of		
— convertible bonds	84,530,000	73,175,000
— share options of the Company	18,000	31,000
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,287,629,000	1,222,494,000

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

	2005	2004
	$'000	*$'000*
Wages and salaries	773,525	692,674
Pension costs		
— Defined benefits plans *(Note 27 (b))*	7,662	14,398
— Defined contribution plan *(Note 27 (a))*	3,310	3,060
Less: Refund of forfeited contributions *(Note 27 (a))*	(455)	(299)
	784,042	709,833

12. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Directors' emoluments

(i) The aggregate amount of emoluments payable to the Directors of the Company during the year was as follows:

	2005	2004
	$'000	*$'000*
Fees		
— Executive Directors	—	—
— Non-executive Directors	400	—
Other emoluments for Executive Directors		
— Basic salaries, housing allowances, other allowances and benefits in kind	11,283	9,516
— Contributions to pension schemes	607	542
— Bonuses*	200	260
Other emoluments for Non-executive Directors	—	—
	12,490	10,318

* The Directors were entitled to a discretionary bonus.

(ii) The emoluments of the Directors fell within the following bands:

	Number of directors	
	2005	**2004**
Executive Directors —		
$500,001 - $1,000,000	1	1
$1,000,001 - $1,500,000	1	—
$1,500,001 - $2,000,000	1	1
$2,000,001 - $2,500,000	1	1
$5,500,001 - $6,000,000	—	1
$6,000,001 - $6,500,000	1	—
	5	4
Non-executive Directors — $Nil - $1,000,000	3	3

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

(b) **Five highest paid individuals**

(i) The five individuals whose emoluments were the highest in the Group for the year included two (2004: two) Directors whose emoluments were set out in the analysis presented above. The emoluments payable to the remaining three (2004: three) individuals during the year were analysed below:

	2005	**2004**
	$'000	*$'000*
Basic salaries, housing allowances, other allowances and benefits in kind	3,155	4,533
Bonuses	1,417	1,024
Contributions to pension schemes	95	55
Compensation for loss of office	992	—
	5,659	5,612

(ii) The emoluments of the aforementioned three (2004: three) non-director employees fell within the following bands:

	Number of individuals	
	2005	**2004**
$1,500,001 - $2,000,000	2	2
$2,000,001 - $2,500,000	1	1
	3	3

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

13. FIXED ASSETS

Group

	Freehold land and buildings	Leasehold land and buildings	Leasehold improvements	Furniture and equipment	Motor vehicles	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Cost or valuation						
At 1st June, 2004	91,034	30,570	47,700	495,900	7,657	672,861
Additions	935	—	31,999	33,628	415	66,977
Acquisition of subsidiaries	4,538	—	67,481	56,524	209	128,752
Revaluation	—	10,230	—	—	—	10,230
Disposals	—	(1,300)	(5,843)	(84,311)	(1,357)	(92,811)
Disposals of subsidiaries	—	—	—	(2,378)	—	(2,378)
Partial disposal of interest in a subsidiary	—	—	(2,916)	(6,022)	—	(8,938)
Exchange adjustments	1,162	—	(6,388)	171	43	(5,012)
At 31st May, 2005	97,669	39,500	132,033	493,512	6,967	769,681
Representing						
At cost	97,669	—	132,033	493,512	6,967	730,181
At 2005 valuation	—	39,500	—	—	—	39,500
At 31st May, 2005	97,669	39,500	132,033	493,512	6,967	769,681
Accumulated depreciation and impairment losses						
At 1st June, 2004	31,208	699	29,472	384,500	4,616	450,495
Charge for the year	3,458	708	8,139	38,314	1,621	52,240
Revaluation	—	(1,360)	—	—	—	(1,360)
Disposals	—	(47)	(5,486)	(82,332)	(1,039)	(88,904)
Disposals of subsidiaries	—	—	—	(2,264)	—	(2,264)
Partial disposal of interest in a subsidiary	—	—	(2,441)	(5,701)	—	(8,142)
Exchange adjustments	611	—	(3,307)	1,701	(9)	(1,004)
At 31st May, 2005	35,277	—	26,377	334,218	5,189	401,061
Net book value						
At 31st May, 2005	62,392	39,500	105,656	159,294	1,778	368,620
At 31st May, 2004	59,826	29,871	18,228	111,400	3,041	222,366

Notes:

(a) All fixed assets are carried at cost less accumulated depreciation and accumulated impairment losses, except for the leasehold land and buildings which were stated at valuation.

The leasehold land and buildings situated in Hong Kong were revalued on 31st May, 2005 by LCH (Asia-Pacific) Surveyors Limited, independent professional valuers, on an open market value basis. Had those leasehold land and buildings been carried at cost less accumulated depreciation, the net book value of the leasehold land and buildings at 31st May, 2005 would have been approximately $29,085,000 (2004: $30,609,000).

At 31st May, 2005, the aggregate property revaluation reserve was approximately $9,753,000 (2004: $2,017,000). Surplus on valuation, amounts credited to retained profits upon disposal of fixed assets and profit and loss account during the year amounted to approximately $8,746,000, $1,010,000 and $990,000 respectively.

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

	2005	**2004**
	$'000	*$'000*
In Hong Kong, held on:		
Leases of over 50 years	—	1,273
Leases of between 10 to 50 years	39,500	28,598
Outside Hong Kong, held on:		
Freehold	62,392	59,826
	101,892	89,697

(c) The net book value of furniture and equipment and motor vehicles held under finance leases at 31st May, 2005 amounted to approximately $975,000 (2004: $1,386,000) and $Nil (2004: $149,000) respectively.

(d) At 31st May, 2005, certain freehold land and buildings with an aggregate net book value of approximately $53,013,000 (2004: $38,478,000) were pledged as security for banking facilities granted to certain subsidiaries of the Group in Europe (Note 32(b)).

14. INTANGIBLE ASSETS

Group

	Licences and trademarks	Development costs	Know-how	Leasehold rights	Goodwill	Negative goodwill	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Cost or valuation							
At 1st June, 2004	441,372	48,684	28,830	—	133,926	(43,226)	609,586
Additions	163,341	4,940	—	—	—	—	168,281
Acquisition of subsidiaries	1,298	—	—	84,456	—	—	85,754
Acquisition of additional interest in a subsidiary *(a)*	—	—	—	—	86,000	—	86,000
Disposals	(9,429)	(530)	—	(661)	—	—	(10,620)
Disposals of subsidiaries	—	(2,848)	—	—	—	—	(2,848)
Partial disposal of interest in a subsidiary	—	(501)	—	—	—	—	(501)
Transfer from accumulated amortisation upon adoption of HKFR3	—	—	—	—	(9,378)	—	(9,378)
Derecognised pursuant to HKFRS 3	—	—	—	—	—	43,226	43,226
Write-off	—	(1,687)	—	—	—	—	(1,687)
Exchange adjustments	(1,542)	577	133	(3,256)	2,130	—	(1,958)
At 31st May, 2005	595,040	48,635	28,963	80,539	212,678	—	965,855
Accumulated amortisation							
At 1st June, 2004	124,129	30,461	9,882	—	9,056	(2,413)	171,115
Charge for the year	9,012	13,985	1,910	572	—	—	25,479
Disposals	(9,424)	(519)	—	(250)	—	—	(10,193)
Disposals of subsidiaries	—	(1,667)	—	—	—	—	(1,667)
Partial disposal of interest in a subsidiary	—	(495)	—	—	—	—	(495)
Transfer to cost upon adoption of HKFRS3	—	—	—	—	(9,378)	—	(9,378)
Derecognised pursuant to HKFRS 3	—	—	—	—	—	2,413	2,413
Write-off	—	(1,687)	—	—	—	—	(1,687)
Exchange adjustments	(330)	178	(3)	1	322	—	168
At 31st May, 2005	123,387	40,256	11,789	323	—	—	175,755
Net book value							
At 31st May, 2005	471,653	8,379	17,174	80,216	212,678	—	790,100
At 31st May, 2004	317,243	18,223	18,948	—	124,870	(40,813)	438,471

Notes:

(a) In June 2004, the Group acquired additional 10% equity interest in a subsidiary and the resultant goodwill is attributable to the potential of radio-controlled business.

(b) The net book value of a software system amounting to approximately $36,135,000 (2004: $42,291,000) included under intangible assets was held under finance leases at 31st May, 2005.

(c) At 31st May, 2005, certain leasehold rights with an aggregate net book value of approximately $26,590,000 were pledged as security for banking facilities granted to a subsidiary of the Group (Note 32(b)).

15. DEFERRED TAX ASSETS/(LIABILITIES)

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

	Group	
	2005	**2004**
	$'000	*$'000*
Beginning of year	100,921	72,574
Exchange adjustments	(747)	144
Acquisition of subsidiaries	11,720	—
Reversal of deferred tax liabilities	—	2,165
Recognised in the profit and loss account during the year	5,338	26,038
Recognised in equity during the year	(1,855)	—
Transfer from taxation payable	3,105	—
End of year	118,482	100,921

Provided for in respect of:

Group

	Accelerated depreciation allowances	Deferred expense/ (income)	Impairment of assets	Tax losses carried forward	Retirement benefit obligation	Revaluation of properties	Unrealised profit in inventories of subsidiaries	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Balance at 1st June, 2004	(3,438)	271	—	81,980	—	—	22,108	100,921
Acquisition of subsidiaries	(3,259)	4,162	3,778	5,773	1,266	—	—	11,720
(Charge)/Credit to the profit and loss account for the year	(565)	(570)	(134)	5,627	16	—	964	5,338
(Charge)/Credit to equity for the year	—	—	—	—	—	(1,855)	—	(1,855)
Transfer from taxation payable	—	—	—	3,105	—	—	—	3,105
Exchange adjustments	69	(129)	(265)	(374)	(48)	—	—	(747)
Balance at 31st May, 2005	(7,193)	3,734	3,379	96,111	1,234	(1,855)	23,072	118,482

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

(b) Deferred taxation is calculated in full on temporary differences under the balance sheet liability method using a principal taxation rate of 17.5% (2004:17.5%). 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	
	2005	**2004**
	$'000	*$'000*
Deferred tax liabilities	(9,606)	(3,167)
Deferred tax assets	128,088	104,088
	118,482	100,921

(c) At 31st May, 2005, the Group has unused tax losses of approximately $393,408,000 (2004: $843,602,000) available for offset against future profits. Deferred tax asset has been recognised in respect of approximately $23,175,000 (2004: $386,370,000) of such losses. No deferred tax asset has been recognised in respect of the remaining $370,233,000 (2004: $457,232,000) due to the unpredictability of future profit streams. The unrecognised tax losses will expire through 5 years to indefinitely.

16. INTERESTS IN SUBSIDIARIES

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

	2005	2004
	$'000	*$'000*
Shares listed in Hong Kong, at cost	118,691	97,548
Unlisted shares, at cost	328,239	328,239
Less: Accumulated impairment losses	(29,000)	(29,000)
	417,930	396,787
Market value of shares listed in Hong Kong	239,859	232,128

Notes:

(a) Amounts due from/(to) subsidiaries were unsecured and repayable on demand. Except for an amount of approximately $275,801,000 (2004: $323,642,000) due from a subsidiary which bore interest at commercial lending rate, the remaining balances were non-interest bearing.

(b) At 31st May, 2005, the Company guaranteed the payments and performance by several subsidiaries under certain license agreements pursuant to which the subsidiaries were licensees (Note 31).

(c) At 31st May, 2005, the Company provided corporate guarantees to commercial banks and other institutions of approximately $3,881,015,000 (2004: $2,090,423,000) to secure banking and other facilities of certain subsidiaries (Notes 31 and 32(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, 2005.

The following is a list of the significant subsidiaries at 31st May, 2005:

	Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued capital/ registered capital held by the Company Directly %	Indirectly %	Principal activities
#	Abel & Zimmermann GmbH & Co KG	Germany	EUR511,292	—	50.63	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	—	59.57	Manufacturing of jewellery
	Centreline Group Limited	British Virgin Islands	US$1	—	100	Investment holding and licensing of trademarks
#	Chromachron A.G.	Switzerland	CHF300,000	—	100	Design, assembly and distribution of watches
#	Comtesse Accessoires GmbH (Formerly known as Comtesse GmbH)	Germany	EUR1,000,000	—	100	Manufacturing and distribution of leather products
	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
	Property Investments Limited	Hong Kong	$2	—	100	Property holding
	Eco Swiss China Time Limited	Hong Kong	$26,000,000	100	—	Procurement
	Egana Asial Company Limited	Samoa/The PRC	$1,000	—	60	Assembly of watches

	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
				%	%	
	Egana.Com Inc.	British Virgin Islands	US$100	—	100	Operation of e-business
#	Egana Deutschland GmbH	Germany	EUR5,113,430	—	100	Design and distribution of watches
	Egana Far East Procurement Services (Holdings) Limited	Cayman Islands	$15,000,000	100	—	Procurement
	Egana Finance Limited	Hong Kong	$2	100	—	Group treasury
#	EganaGoldpfeil Benelux Jewel B.V.	The Netherlands	EUR18,000	—	59.57	Distribution of jewellery
#	EganaGoldpfeil Benelux Time B.V.	The Netherlands	EUR18,000	—	100	Distribution of watches
#	EganaGoldpfeil Europe (Holdings) GmbH	Germany	EUR2,600,000	100	—	Investment holding
#	EganaGoldpfeil Italia s.r.l.	Italy	EUR25,823	—	100	Distribution of watches
#	EganaGoldpfeil (Switzerland) Limited	Switzerland	CHF1,000,000	—	100	Design, manufacturing and distribution of watches
	Egana-Haru Mfr. Corp. Limited	Hong Kong	$2	—	100	Design, assembly, distribution and licensee of watches
#	Egana India Private Limited	India	US$500,000	—	90	Distribution of watches and jewellery
	Egana Investments (Pacific) Limited	Cook Islands	US$1	—	59.57	Investment holding and licensing operation
*	Egana Jewellery & Pearls Limited (“EJPL”)	Cayman Islands/Hong Kong	$206,582,226	43.32	16.25	Investment holding
#	Egana Jewelry & Pearls (America) Corp.	The United States of America	US$881,000	—	59.57	Design and distribution of jewellery
#	Egana Juwelen & Perlen Handels GmbH	Austria	EUR36,336	—	59.57	Distribution of jewellery

	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
				%	%	
	Egana Marketing (Suisse) Inc.	Cook Islands	US$1	—	59.57	Provision of marketing and consultancy services
#	Egana Schmuck und Perlen GmbH	Germany	EUR25,565	—	59.57	Design and distribution of jewellery
#	Egana of Switzerland (America) Corp.	The United States of America	US$16,517,458	100	—	Design, distribution and licensee of watches
	Egana of Switzerland (Far East) Limited	Hong Kong	$11,500,000	—	100	Design, assembly and distribution of watches
#	Egana Uhrenvertriebs GmbH	Austria	EUR36,000	—	100	Distribution of watches
#	Eurochron GmbH	Germany	EUR2,556,459	—	100	Design, manufacturing and distribution of clocks
#	European Technology & Logistic Center GmbH	Germany	EUR500,000	—	100	Technology and logistic center
	Everstone Limited	Hong Kong/ The PRC	$100	—	59.57	Subcontracting and manufacturing of jewellery
	Funasia Investments Limited	British Virgin Islands	US$14,000,001	—	100	Investment holding
	Glorious Concept Limited	British Virgin Islands	US$10	—	100	Investment holding
#	Goldpfeil GmbH	Germany	EUR3,600,000	—	100	Design, manufacturing and distribution of luxury leather goods
	Goldpfeil Distribution and Services Limited	Hong Kong	$500,000	—	100	Distribution and retailing of leather products
#	Goldpfeil Genève S.A.	Switzerland	CHF100,000	—	100	Distribution of watches
#	Guthmann + Wittenauer Schmuck GmbH	Germany	EUR1,500,000	—	59.57	Manufacturing and distribution of jewellery
#	Haru Holding & Management GmbH	Germany	EUR2,300,850	—	100	Investment holding

	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
				%	%	
#	Haru Japan Corporation, Inc.	Japan	JP¥30,000,000	—	100	Distribution of timepieces, jewellery, and sourcing agent for pearls
#	Jacquelin Designs Enterprises, Inc.	The United States of America	—	—	59.57	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	—	59.57	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	—	59.57	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 (i)	Germany	EUR1,000,000	—	77.5	Manufacturing of porcelain
#	Rebner GmbH	Germany	EUR25,564	—	50.63	Investment holding

	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
#	Salamander in Austria GmbH (ii)	Austria	EUR4,500,000	—	100	Retailing of shoes
#	Salamander CR spol.s.r.o. (ii)	Czech Republic	CZK18,222,000	—	100	Retailing of shoes
#	Salamander France S.A.S. (ii)	France and Belgium	EUR4,458,600	—	100	Retailing of shoes
#	Salamander GmbH (ii)	Germany	EUR8,000,000	—	100	Retailing of shoes
#	Salamander Hungaria Kft. (ii)	Hungary	HUF662,880,000	—	99.849	Retailing of shoes
#	Salamander Ost GmbH (ii)	Russia	RUB20,190,000	—	100	Retailing of shoes
#	Salamander Polska Sp.z.o.o. (ii)	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	—	59.57	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

Notes:

(i) The Group acquired a German porcelain manufacturer in October 2004.

(ii) The Group acquired a German footwear retail group, Salamander GmbH and its subsidiaries in March, 2005.

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

* Listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

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

@ Wholly foreign-owned enterprise incorporated in the PRC.

17. INTERESTS IN ASSOCIATED COMPANIES

	Group 2005 $'000	Group 2004 $'000
Share of net assets/(liabilities)		
Company listed in Hong Kong	105,671	80,219
Unlisted companies	(8,500)	(12,461)
	97,171	67,758
Negative goodwill	—	(1,386)
Goodwill	64,269	64,269
	161,440	130,641
The Group's share of the market value of the company listed in Hong Kong	41,214	54,433

The underlying value of interests in associated companies was, in the opinion of the Directors, not less than the carrying value at 31st May, 2005.

The following is a list of the principal associated companies at 31st May, 2005:

Name	Place of incorporation/ operation	Particulars of issued shares held	Percentage of interest held Directly %	Percentage of interest held Indirectly %	Principal activities
Amaretta GmbH (Formerly Known as Haru-Kuraray 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!")	Germany	3 shares of EUR120,000 each	—	33.33	Retail and trademark licensing
Tonic Industries Holdings Limited ("Tonic") **	Cayman Islands/Hong Kong	Ordinary shares of $0.1 each	—	20.40	Design, manufacturing and trading of consumer electronic products and components and home appliance products

* During the year, the Group disposed 25% interest in Amaretta which reduced Group's shareholding from 55% to 30%.

** Listed on the Stock Exchange.

Tonic has a financial accounting period of 31st March, which is not coterminous with the Group. Summarised audited financial information of Tonic as at 31st March, 2005 and for the year then ended is set out below:

	31st March, 2005 *(Audited)#* *$'000*	**31st March, 2004** *(Audited)#* *$'000*
Balance sheet		
Non-current assets	741,539	592,960
Current assets	623,859	869,956
Total assets	1,365,398	1,462,916
Capital and reserves	519,888	396,539
Non-current liabilities	223,945	266,878
Current liabilities	621,565	799,499
Total equity and liabilities	1,365,398	1,462,916

	Year ended 31st March, 2005 *(Audited)#* *$'000*	**Year ended 31st March, 2004** *(Audited)#* *$'000*
Profit and loss account		
Turnover	2,636,294	2,074,140
Gross profit	107,817	104,516
Operating profit	41,788	29,109
Profit before taxation	29,038	19,965
Net profit for the year	27,560	25,599

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

18. INVESTMENTS IN NON-TRADING SECURITIES

	Group		Company	
	2005	**2004**	**2005**	**2004**
	$'000	*$'000*	*$'000*	*$'000*
Equity securities:				
Strategic investments *(a)*	283,587	278,892	44,663	43,199
Others *(b)*	244,289	53,611	6,377	7,362
	527,876	332,503	51,040	50,561

Notes:

(a) Strategic investments:

	Group	
	2005	**2004**
	$'000	*$'000*
Unlisted, at fair value		
— Investment in third party private companies *(i)*	87,792	87,792
— Private closed-end funds *(ii)*	195,795	191,100
	283,587	278,892

	Company	
	2005	**2004**
	$'000	*$'000*
Unlisted, at fair value	44,663	43,199

(i) At 31st May, 2005, the Group had strategic investments in two third party private companies with a view to enhancing the Group's distribution network in Asia. Their principal activities are investment holding, trading of consumer products, rendering of marketing promotion service, distribution and trading of fashion accessory products.

As at 31st May, 2005, the investment in the private companies was stated at fair value as determined by the Directors and a revaluation surplus of approximately $10,456,000 (2004: $12,688,000) was recorded in the revaluation reserve.

In the opinion of the Directors, there was no impairment in the carrying value of these non-trading securities at 31st May, 2005.

(ii) At 31st May, 2005, the Group had strategic investments in four private closed-end funds, which provided opportunity for the Group to explore Junghans systems watch program extension in Asia, and to exploit distribution alliance partners for the Group's branded products in the Greater China markets. The four funds are under the management of a third party Hong Kong listed investment banking group.

At 31st May, 2005, the investment in private closed-end funds was stated at fair value which was determined by the Directors and a revaluation deficit of approximately $163,600 (2004: $5,684,000) was recorded in the revaluation reserve.

In the opinion of the Directors, there was no impairment in the carrying value of the funds at 31st May, 2005.

(b) Others:

	Group	
	2005	**2004**
	$'000	*$'000*
Listed in Hong Kong, at quoted market price	98,652	53,147
Listed other than in Hong Kong, at quoted market price	3,064	—
Unlisted, at fair value *(i)*	142,573	464
	244,289	53,611

	Company	
	2005	**2004**
	$'000	*$'000*
Listed in Hong Kong, at quoted market price	6,062	7,047
Unlisted, at fair value	315	315
	6,377	7,362

(i) In May 2005, the Group invested $117,000,000 in a US-based private leather products and footwear importer, House of Brands, Inc. of KIA, Inc. which is one of the most established footwear importers in the United States. House of Brands, Inc. is expected to pass onto the Group sourcing contracts which should generate additional revenue and create synergies in North America.

In the opinion of Directors, there was no impairment in the carrying value of the investments as at 31st May, 2005.

19. INVENTORIES

	Group	
	2005	**2004**
	$'000	*$'000*
Raw materials	285,303	283,629
Work-in-progress	101,572	96,342
Finished goods	912,129	604,472
	1,299,004	984,443
Less: Provision for inventory	(138,333)	(89,157)
	1,160,671	895,286

At 31st May, 2004 and 2005, no inventory was carried at net realisable value.

At 31st May, 2005, the carrying amount of inventories that was pledged as security for banking facilities granted to certain subsidiaries of the Group amounted to approximately $90,782,000 (2004: $48,782,000) (Note 32 (b)).

20. 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, 2005 after provision for bad and doubtful debts was as follows:

	Group	
	2005	**2004**
	$'000	*$'000*
Due		
In current month	308,254	730,732
Between one to two months	51,404	36,663
Between two to three months	24,744	32,926
Between three to four months	16,780	25,410
Over four months	48,854	28,546
	450,036	854,277

21. SHORT-TERM INVESTMENTS

	Group	
	2005	**2004**
	$'000	*$'000*
Equity-linked notes *(a)*	83,000	118,810
Trading securities listed outside Hong Kong	317	7,739
	83,317	126,549

Notes:

(a) At 31st May, 2005, the Group had investments in certain equity-linked notes (the "ELNs") issued by an independent third party private company (the "Note Issuer").

The ELNs were unsecured, bore interest at a range of 1.25% to 3.0% per annum and would be redeemable by the Note Issuer on maturity dates, which were three to six months after the issuance dates.

The ELNs or any part thereof are convertible into shares of companies listed on the Stock Exchange at a specified conversion price (subject to adjustments) at the option of the Group. The Group also has the right to demand the Note Issuer to redeem any notes not previously converted at redemption amounts equal to 102% to 105% of the principal amounts upon maturity.

22. ACCOUNTS PAYABLE, ACCRUALS AND OTHER PAYABLES

	Group		Company	
	2005	**2004**	**2005**	**2004**
	$'000	*$'000*	*$'000*	*$'000*
Accounts payable	252,796	250,536	—	—
Accruals and other payables	453,234	334,308	5,700	5,092
	706,030	584,844	5,700	5,092

At 31st May, 2005, the aging analysis of the accounts payable was as follows:

	Group	
	2005	**2004**
	$'000	*$'000*
Due		
In current month	195,405	199,564
Between one to two months	17,785	34,707
Between two to three months	12,516	4,900
Between three to four months	6,980	4,910
Over four months	20,110	6,455
	252,796	250,536

23. PROVISIONS

Group

	Warranty *(a)*	**Restructuring**	**Others**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
At 1st June, 2004	19,154	3,220	3,594	25,968
Additional provisions	6,463	1,615	—	8,078
Arising from the partial disposal of interest in a subsidiary	(240)	—	—	(240)
Less: Amounts utilised	(2,108)	(5,051)	—	(7,159)
Less: Unused amounts reversed	(15,726)	—	(3,647)	(19,373)
Exchange adjustments	103	216	53	372
At 31st May, 2005	7,646	—	—	7,646

Note:

(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.

24. SHORT-TERM BANK BORROWINGS

	Group		Company	
	2005	**2004**	**2005**	**2004**
	$'000	*$'000*	*$'000*	*$'000*
Bank loans and overdrafts	918,221	494,420	—	—
Trust receipts and import loans	203,681	145,120	—	—
	1,121,902	639,540	—	—

25. LONG-TERM LIABILITIES

	Group		Company	
	2005	**2004**	**2005**	**2004**
	$'000	*$'000*	*$'000*	*$'000*
Long-term bank borrowings *(a)*	548,007	493,573	300,000	284,000
Other long-term loans *(b)*	34,008	67,171	—	—
Obligations under finance leases *(c)*	9,062	28,351	—	—
	591,077	589,095	300,000	284,000
Current portion of long-term liabilities	(127,226)	(179,748)	—	(46,000)
	463,851	409,347	300,000	238,000

Notes:

(a) Long-term bank borrowings:

	Group		Company	
	2005	**2004**	**2005**	**2004**
	$'000	*$'000*	*$'000*	*$'000*
Repayable				
— within one year				
— secured	10,263	22,396	—	—
— unsecured	79,201	95,197	—	46,000
— in the second year				
— secured	7,499	15,607	—	—
— unsecured	212,361	108,551	90,000	70,000
— in the third to fifth year				
— secured	14,286	7,598	—	—
— unsecured	222,936	243,491	210,000	168,000
— after the fifth year				
— secured	1,461	733	—	—
— unsecured	—	—	—	—
	548,007	493,573	300,000	284,000
Current portion included in current liabilities	(89,464)	(117,593)	—	(46,000)
	458,543	375,980	300,000	238,000

(i) In March 2004, a subsidiary entered into a syndicated loan agreement with banks for a three-year transferable loan facility amounting to $120 million. The syndicated loan carries interest at commercial lending rates, is guaranteed by certain subsidiaries and is repayable by three semi-annual instalments commencing in March 2006.

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

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

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

At 31st May, 2005, long-term bank borrowings not wholly repayable within five years of approximately $17,030,000 (2004: $9,765,000) were repayable by instalments.

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

	Group	
	2005	**2004**
	$'000	*$'000*
Repayable		
— within one year	28,996	42,720
— in the second year	310	5,087
— in the third to fifth year	1,076	1,045
— after the fifth year	3,626	18,319
	34,008	67,171
Current portion included in current liabilities	(28,996)	(42,720)
	5,012	24,451

At 31st May, 2005, other loans not wholly repayable within five years of approximately $5,726,000 (2004: $19,969,000) were repayable by instalments.

(c) Obligations under finance leases:

	Group	
	2005	**2004**
	$'000	*$'000*
Lease payments payable		
— within one year	8,879	20,421
— in the second year	276	8,756
— in the third to fifth year	28	276
	9,183	29,453
Future finance charges on finance leases	(121)	(1,102)
Present value of finance lease liabilities	9,062	28,351

The present value of finance lease liabilities was as follows:

	Group	
	2005	**2004**
	$'000	*$'000*
Repayable		
— within one year	8,766	19,435
— in the second year	269	8,646
— in the third to fifth year	27	270
Present value of finance lease liabilities	9,062	28,351
Current portion included in current liabilities	(8,766)	(19,435)
	296	8,916

26. CONVERTIBLE BONDS

	Group		Company	
	2005	**2004**	**2005**	**2004**
	$'000	*$'000*	*$'000*	*$'000*
Beginning of year	226,200	78,000	159,900	78,000
Issued during the year				
— Company *(a)(i)(ii)*	—	117,000	—	117,000
— Subsidiary *(b)*	39,000	78,000	—	—
Converted to ordinary shares				
— Company *(a)(iii)*	(136,453)	(35,087)	(136,453)	(35,087)
— Subsidiary *(b)*	(105,300)	(11,700)	—	—
Repayment of convertible bonds				
— Company	(47)	(13)	(47)	(13)
End of year	23,400	226,200	23,400	159,900
Current portion included in current liabilities	(23,400)	—	(23,400)	—
	—	226,200	—	159,900

(a) **Convertible bonds — Company**

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

On 27th February, 2003 (the "First Closing Date"), the Company issued convertible bonds (the "Tranche 1 Bonds") of US$10 million (equivalent to approximately $78 million) to CSFB. The Tranche 1 Bonds may be converted into the Company's shares at the conversion price during the conversion period as stated in the Subscription Agreement A. All outstanding Tranche 1 Bonds will be redeemed at 100% of its principal amount on maturity.

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

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

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

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

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

(ii) Under the Subscription Agreement A, CSFB also granted an option to the Company to require CSFB to subscribe for convertible bonds (the "Tranche 2 Bonds") of US$10 million (equivalent to approximately $78 million), subject to the satisfaction of certain conditions stipulated in the Subscription Agreement A. On 15th January, 2004 (the "Second Closing Date"), the Company issued the Tranche 2 Bonds of US$10 million (equivalent to approximately $78 million) to CSFB. The Tranche 2 Bonds have substantially the same terms as the Tranche 1 Bonds.

Upon the issuance of the Tranche 2 Bonds, the Company also granted additional subscription rights to CSFB, exercisable at any time commencing on the Second Closing Date until the First Maturity Date, to subscribe for approximately 7 million ordinary shares (the "Tranche 2 Bonds Subscription Shares") in the Company at a subscription price of $2.0604 per share.

(iii) During the year ended 31st May, 2005, convertible bonds amounting to US$17.5 million (equivalent to approximately $136.5 million) (2004: US$4.5 million (equivalent to approximately $35.1 million)) were converted into 99,456,000 (2004: 23,827,000) ordinary shares in the Company.

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

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

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

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

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

As at 14th September, 2005 (the date of this Annual Report), CSFB holds, in aggregate, US$2,400,000 convertible bonds which will be expiring on 27th February, 2006.

(b) **Convertible bonds — Subsidiary**

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

On 26th February, 2004, Egana Jewellery issued convertible bonds (the "Tranche 1 Bonds") of US$10 million (equivalent to approximately $78 million) to Merrill Lynch. Tranche 1 Bonds amounting to US$1.5 million (equivalent to $11.7 million) were converted into Egana Jewellery's ordinary shares in prior year, with the remaining balance of US$8.5 million (equivalent to $66.3 million) converted into ordinary shares in the current year.

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

In accordance with the terms and conditions of the subscription letter dated 10th February, 2004, Egana Jewellery has granted Merrill Lynch subscription rights to subscribe for approximately 5.5 million ordinary shares of Egana Jewellery and 3.5 million ordinary shares of Egana Jewellery in respect of the Tranche 1 Bonds and Tranche 3a Bonds respectively.

As at 31st May, 2005, options exercisable by either Egana Jewellery or Merrill Lynch to issue Tranche 1a Bonds, Tranche 2a and 2b Bonds and Tranche 3b Bonds under the Subscription Agreement C have not been exercised and expired in accordance with the terms of the Subscription Agreement C.

27. PENSIONS AND OTHER POST RETIREMENT OBLIGATIONS

	Group	
	2005	**2004**
	$'000	*$'000*
Obligations on:		
— pensions — defined contribution plan *(a)*	—	—
— pensions — defined benefits plans *(b)*	230,652	216,755
	230,652	216,755

Notes:

(a) Pensions — defined contribution plan

The Group has participated in the defined Mandatory Provident Fund scheme in Hong Kong since 1 December 2000 and made monthly contributions to the scheme based on 5%-7% of the employees' basic salaries. The contributions are subject to a maximum of $1,000 per employee per month and thereafter contributions are voluntary. During the year ended 31st May, 2005, the Group's employer's contribution to the scheme was approximately $3,310,000 (2004: $3,060,000). The assets of the scheme are held separately from those of the Group and are managed by independent professional fund managers.

Forfeited contributions totalling $455,000 (2004: $299,000) 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, 2005, 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, 2005 by qualified actuaries, M&L Gesellschaft für Versicherungsmathematik mbH, Dr. Dr. Heissmann GmbH, HÕFER Vorsorge-Management, Allianz Lebensversicherungs-AG, IDUNA Vereinigte Lebensversicherung aG, Concisa Vorsorgeberatung und Management AG and AXA France Vie S.A. using the projected unit credit method. The main actuarial assumptions were as follows:

Discount rate	4%-6%
Expected rate of future salary increases	1%-2%
Expected future pension increases	1%-2%

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

	Group	
	2005	**2004**
	$'000	*$'000*
Present value of unfunded obligations	228,926	221,337
Unrecognised actuarial gains/(losses)	1,726	(4,582)
Liability in the balance sheet	230,652	216,755

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

	2005	2004
	$'000	*$'000*
Current service cost	796	3,230
Interest cost	11,607	9,963
Net actuarial (gain)/losses recognised	(4,741)	1,205
Total included in staff costs *(Note 11)*	7,662	14,398

All the charges were included in administrative expenses.

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

	2005	2004
	$'000	*$'000*
Beginning of year	216,755	137,527
Exchange adjustments	2,650	7,470
Liabilities acquired on acquisition of subsidiaries	17,523	69,109
Expenses recognised in the profit and loss account	7,662	14,398
Benefits paid	(13,938)	(11,749)
End of year	230,652	216,755
Current portion included in current liabilities	(14,724)	(14,810)
	215,928	201,945

28. SHARE CAPITAL

Share capital comprised:

	2005	2004	2005	2004
	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	1,171,830,051	1,131,976,762	1,171,829	1,131,976
Issued upon conversion of convertible bonds *(a)*	99,456,000	23,827,000	99,457	23,827
Issue of shares pursuant to scrip dividend scheme for the 2003 final dividend	—	16,026,289	—	16,026
End of year	1,271,286,051	1,171,830,051	1,271,286	1,171,829

Note:

(a) During the year, the Company issued a total of 99,456,000 new ordinary shares of $1 each upon the conversion of convertible bonds of $136,500,000 as set out in note 26.

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	
	2005	**2004**
	'000	*'000*
Beginning of year	45,229	45,382
Lapsed on expiry	(250)	(153)
End of year	44,979	45,229

No share options were granted (2004: Nil), exercised (2004: Nil) or cancelled (2004: Nil) during the year.

250,000 share options were lapsed (2004: 153,000 share options) were lapsed.

(b) At 31st May, 2005, details of outstanding share options were as follows:

		2005			2004		
Date granted	**Expiry date**	**Exercise price**	**No. of options**	**No. of options vested**	**Exercise price**	**No. of options**	**No. of options vested**
		$			*$*		
Directors							
23/03/1997	23/03/2007	3.45	144,800	—	3.45	144,800	—
09/01/2000	09/01/2010	2.11	12,500,000	—	2.11	12,500,000	—
17/01/2000	17/01/2010	2.11	500,000	—	2.11	500,000	—
			13,144,800	—		13,144,800	—
Employees under continuous contracts (excluding Directors)							
28/01/1997	28/01/2007	1.28	99,000	—	1.28	99,000	—
15/03/1997 to 27/09/1997	15/03/2007 to 27/09/2007	3.45	975,400	—	3.45	975,400	—
07/01/2000 to 25/02/2000	07/01/2010 to 25/02/2010	2.11	30,760,000	—	2.11	31,010,000	—
			31,834,400	—		32,084,400	—
			44,979,200	—		45,229,200	—

29. RESERVES

Group

	Year ended 31st May, 2005								
	Share premium account	**Exchange translation reserve**	**Retained profits**	**Revaluation reserve**	**Capital redemption reserve**	**Goodwill**	**Legal reserve**	**Other reserve**	**Total**
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Beginning of year, as previously reported	345,958	(197,276)	517,226	7,948	40,801	(454,108)	270	580	261,399
Effect of adopting HKFRS3	—	—	42,199	—	—	—	—	—	42,199
Beginning of year, as restated	345,958	(197,276)	559,425	7,948	40,801	(454,108)	270	580	303,598
Share premium arising from conversion of convertible bonds	17,421	—	—	—	—	—	—	—	17,421

	Year ended 31st May, 2005								
	Share premium account	Exchange translation reserve	Retained profits	Revaluation reserve	Capital redemption reserve	Goodwill	Legal reserve	Other reserve	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Expenses incurred in connection with issue of shares	(68)	—	—	—	—	—	—	—	(68)
Share of an associated company's revaluation surplus of fixed assets	—	—	—	7,513	—	—	—	—	7,513
Share of an associated company's exchange translation reserve	—	3	—	—	—	—	—	—	3
Revaluation of leasehold land and buildings	—	—	—	10,601	—	—	—	—	10,601
Revaluation of listed non-trading securities	—	—	—	9,427	—	—	—	—	9,427
Revaluation of unlisted non-trading securitites	—	—	—	5,089	—	—	—	—	5,089
Disposal of fixed assets	—	—	1,010	(1,010)	—	—	—	—	—
Disposal of subsidiaries	—	(514)	—	—	—	—	—	—	(514)
Disposal of listed non-trading securities	—	—	—	(16,729)	—	—	—	—	(16,729)
Deferred tax debited to equity	—	—	—	(1,855)	—	—	—	—	(1,855)
Exchange differences arising on translation of the accounts of foreign subsidiaries and associated compaines	—	(7,367)	—	—	—	—	—	—	(7,367)

Year ended 31st May, 2005

	Share premium account	Exchange translation reserve	Retained profits	Revaluation reserve	Capital redemption reserve	Goodwill	Legal reserve	Other reserve	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Profit attributable to shareholders	—	—	210,695	—	—	—	—	—	210,695
Dividends paid	—	—	(60,676)	—	—	—	—	—	(60,676)
End of year	363,311	(205,154)	710,454	20,984	40,801	(454,108)	270	580	477,138
Representing:									
2005 Final dividend proposed			44,595						
Others			665,859						
Retained profits, end of year			710,454						
Representing:									
Company and subsidiaries	363,311	(204,545)	653,075	12,190	40,801	(432,136)	270	580	433,546
Associated companies	—	(609)	57,379	8,794	—	(21,972)	—	—	43,592
End of year	363,311	(205,154)	710,454	20,984	40,801	(454,108)	270	580	477,138

Year ended 31st May, 2004

	Share premium account	Exchange translation reserve	Retained profits	Revaluation reserve	Capital redemption reserve	Goodwill	Legal reserve	Other reserve	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Beginning of year	327,342	(196,847)	432,879	174	40,801	(460,468)	270	580	144,731
Share premium arising from conversion of convertible bonds	11,260	—	—	—	—	—	—	—	11,260
Share premium arising from issue of shares under scrip dividend scheme	7,372	—	—	—	—	—	—	—	7,372
Expenses incurred in connection with issue of shares	(16)	—	—	—	—	—	—	—	(16)
Share of an associated company's revaluation surplus of fixed assets	—	—	—	19	—	—	—	—	19

	Year ended 31st May, 2004								
	Share premium account	**Exchange translation reserve**	**Retained profits**	**Revaluation reserve**	**Capital redemption reserve**	**Goodwill**	**Legal reserve**	**Other reserve**	**Total**
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Share of an associated company's exchange translation reserve	—	12	—	—	—	—	—	—	12
Revaluation of listed non-trading securities	—	—	—	4,218	—	—	—	—	4,218
Partial disposal of interest in an associated company	—	—	—	—	—	2,874	—	—	2,874
Deemed disposal of interest in a subsidiary	—	—	—	—	—	3,486	—	—	3,486
Partial disposal of unlisted non-trading securities	—	—	—	384	—	—	—	—	384
Dissolution of unlisted non-trading securities	—	—	—	3,153	—	—	—	—	3,153
Exchange differences arising on translation of the accounts of foreign subsidiaries and associated compaines	—	(441)	—	—	—	—	—	—	(441)
Profit attributable to shareholders	—	—	141,884	—	—	—	—	—	141,884
Scrip and cash dividends	—	—	(57,537)	—	—	—	—	—	(57,537)
End of year	345,958	(197,276)	517,226	7,948	40,801	(454,108)	270	580	261,399
Representing:									
2004 Final dividend proposed			29,427						
Others			487,799						
Retained profits, end of year			517,226						
Representing:									
Company and subsidiaries	345,958	(196,964)	468,450	6,667	40,801	(432,136)	270	580	233,626
Associated companies	—	(312)	48,776	1,281	—	(21,972)	—	—	27,773
End of year	345,958	(197,276)	517,226	7,948	40,801	(454,108)	270	580	261,399

Company

	Year ended 31st May, 2005					
	Share premium account	**Retained profits**	**Revaluation reserve**	**Capital redemption reserve**	**Other reserve**	**Total**
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Beginning of year	345,958	34,502	(2,742)	40,801	457	418,976
Share premium arising from conversion of convertible bonds	17,421	—	—	—	—	17,421
Expenses incurred in connection with issue of shares	(68)	—	—	—	—	(68)
Revaluation of listed non-trading securities	—	—	(986)	—	—	(986)
Revaluation of unlisted non-trading securities	—	—	1,465	—	—	1,465
Profit for the year	—	73,915	—	—	—	73,915
Dividends paid	—	(60,676)	—	—	—	(60,676)
End of year	363,311	47,741	(2,263)	40,801	457	450,047

Representing:	
2005 Final dividend proposed	44,595
Others	3,146
Retained profits, end of year	47,741

	Year ended 31st May, 2004					
	Share premium account	Retained profits	Revaluation reserve	Capital redemption reserve	Other reserve	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Beginning of year	327,342	90,691	(1,784)	40,801	457	457,507
Share premium arising from conversion of convertible bonds	11,260	—	—	—	—	11,260
Share premium arising from the issue of shares under scrip dividend scheme	7,372	—	—	—	—	7,372
Expenses incurred in connection with issue of shares	(16)	—	—	—	—	(16)
Revaluation of listed non-trading securities	—	—	(958)	—	—	(958)
Profit for the year	—	1,348	—	—	—	1,348
Scrip and cash dividends	—	(57,537)	—	—	—	(57,537)
End of year	345,958	34,502	(2,742)	40,801	457	418,976
Representing:						
2004 Final dividend proposed		29,427				
Others		5,075				
Retained profits, end of year		34,502				

30. CONSOLIDATED CASH FLOW STATEMENT

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

	2005	2004
	$'000	$'000
Profit before share of profit/(loss) of associated companies	225,104	136,807
Depreciation of fixed assets	52,240	52,171
Gain on revaluation of fixed assets	(990)	—
Gain on partial disposal of interest in a subsidiary	(3,943)	—
Loss/(Gain) on disposal of fixed assets	365	(8,675)
(Gain)/Loss on disposal of intangible assets	(176)	127
Amortisation of intangible assets, net	25,479	43,050
Gain on acquisition of additional interest in a subsidiary	(4,907)	—
Gain on acquisition of subsidiaries	(31,247)	—
Loss/(Gain) on disposal of a subsidiaries	3,288	(8)
Loss on deemed disposal of interest in a subsidiary	30,549	3,429
Franchising income	—	(32,445)
Gain on partial disposal of interest in an associated company	—	(730)
Amortisation of goodwill/negative goodwill arising on acquisition of associated companies, net	—	7,880
Gain on disposal of interest in an associated company	—	(5,198)
Dividend income	(1,753)	(4,576)
Gain on revaluation of trading securities	(12)	(65)
Gain on disposal of investments in non-trading securities, net	(26,988)	(881)
Redemption premium received on maturity of equity-linked notes	(14,416)	(5,896)
Interest income	(46,858)	(34,303)
Interest expense	66,427	66,506
Loss on dissolution of non-trading securities	—	2,625
Provision for inventory	12,389	—
Write-back of provision for inventory	(39,401)	(66,847)
Bad debt expense	11,838	19,955
Write-back of provision for bad debts	(383)	(899)
Operating profit before working capital changes	256,605	172,027
(Increase)/Decrease in inventories	(182,716)	47,293
Decrease/(Increase) in accounts receivable	356,622	(214,624)
(Increase)/Decrease in deposits, prepayments and other receivables	(22,726)	127,151
(Increase)/Decrease in due from associated companies	(1,878)	4,934
Decrease in accounts payable, accruals and other payables	(17,949)	(70,599)
Decrease in provisions	(18,631)	(20,387)
Increase in bills payable	24,784	34,704
(Decrease)/Increase in provision for pensions and other post retirement obligations	(6,276)	2,648
Increase/(Decrease) in due to associated companies	3,412	(2,221)
Increase/(Decrease)in due to Directors	470	(43)
Exchange adjustments	5,796	(10,861)
Net cash inflow generated from operations	397,513	70,022

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

	Year ended 31st May, 2005										
	Share capital (including share premium)	**Short-term bank borrowings**	**Dividend payable**	**Long-term bank borrowings**	**Other long-term loans**	**Loan from a minority shareholder**	**Finance leases obligations**	**Convertible bonds**	**Minority interests**	**Total**	**2004 Total**
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Beginning of year	1,517,787	639,540	—	493,573	67,171	—	28,351	226,200	150,004	3,122,626	2,670,009
(Repayment of)/ proceeds from borrowings, net	—	365,797	—	47,408	(34,370)	—	(20,108)	(47)	—	358,680	133,844
Conversion of convertible bonds	136,453	—	—	—	—	—	—	(241,753)	135,824	30,524	(57)
Payment of expenses incurred for issue of shares	(68)	—	—	—	—	—	—	—	—	(68)	(16)
Waiver of subscription rights & option in respect of convertible bonds	(19,575)	—	—	—	—	—	—	—	—	(19,575)	—
Proceeds from issuance of convertible bonds	—	—	—	—	—	—	—	39,000	—	39,000	195,000
Dividends paid	—	—	(60,676)	—	—	—	—	—	—	(60,676)	(34,139)
Acquisition of subsidiaries	—	132,704	—	3,863	—	1,364	—	—	3,781	141,712	30,681
Disposal of interest in subsidiary	—	(9,910)	—	—	—	—	—	—	(1,427)	(11,337)	—
Purchase of additional interest in a subsidiary	—	—	—	—	—	—	—	—	(26,049)	(26,049)	—
Dividends paid to minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	(15,082)	(15,082)	(8,311)
Dividend declared	—	—	60,676	—	—	—	—	—	—	60,676	57,537
Share of profit by minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	26,695	26,695	15,620
Share of revaluation deficit of non-trading securities and exchange translation reserve by minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	2,222	2,222	1,198
Inception of finance leases	—	—	—	—	—	—	—	—	—	—	39,550
Exchange adjustments	—	(6,229)	—	3,163	1,207	(40)	819	—	—	(1,080)	21,710
End of year	1,634,597	1,121,902	—	548,007	34,008	1,324	9,062	23,400	275,968	3,648,268	3,122,626

(c) Acquisition of subsidiaries:

In October 2004, the Group acquired 77.5% equity interest in Porzellan-Manufaktur Ludwigsburg GmbH ("PML")

In March 2005, the Group acquired 100% equity interests in Salamander France S.A.S., Salamander in Austria GmbH, Salamander Ost GmbH, Salamander Polska Sp.z.o.o., Salamander CR spol.s.r.o. and 99.849% equity interest in Salamander Hungaria Kft. ("Salamander subsidiaries").

The aggregate revenue and aggregate net profit of PML & Salamander subsidiaries as though the acquisition had occurred at 1st June, 2004 are approximately $884,096,000 and $15,753,000 respectively.

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

	2005	2004
	$'000	*$'000*
Purchase consideration:		
Cash consideration	115,416	28,716
Direct expenses relating to the acquisitions	401	—
Total purchase consideration	115,817	28,716
Less: fair value of net assets acquired	147,064	71,942
Gain on acquisition	(31,247)	(43,226)

	2005	2004
	$'000	*$'000*
Net assets acquired:		
Fixed assets	128,752	31,998
Intangible assets	85,754	—
Investments in non-trading securities	3,609	—
Deferred tax assets	14,979	—
Inventories	139,972	92,000
Accounts receivable	6,947	56,193
Deposits, prepayments and other receivables	57,025	20,483
Tax recoverable	2,058	—
Cash and bank balances	37,795	12,069
Accounts payable, accruals and other payables	(167,334)	(38,061)
Provisions	—	(2,950)
Short-term bank borrowings	(132,704)	(14,101)
Long-term bank borrowings	(3,863)	(603)
Loan from a minority shareholder	(1,364)	—
Deferred tax liabilities	(3,259)	—
Minority Interests	(3,781)	—
Other loans	—	(15,977)
Pensions and other post retirement obligations	(17,522)	(69,109)

	2005	2004
	$'000	*$'000*
Share of net assets at date of acquisition	147,064	71,942
Gain on acquisition of subsidiaries	(31,247)	(43,226)
Consideration	115,817	28,716
Satisfied by:		
Cash consideration	115,817	28,716
Paid	58,361	28,716
Payable	57,456	—
	115,817	28,716

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

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

	2005	2004
	$'000	*$'000*
Cash consideration paid	(58,361)	(28,716)
Cash and bank balances acquired	37,795	12,069
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(20,566)	(16,647)

(d) Acquisition of businesses:

	2005	2004
	$'000	*$'000*
Net assets acquired:		
Fixed assets	—	5,462
Intangible assets	—	454
Inventories	—	22,056
Accounts receivable	—	10,956
Deposits, prepayments and other receivables	—	4,222
Cash and bank balances	—	22
Accounts payable, accruals and other payables	—	(23,843)
Share of net assets at date of acquisition	—	19,329
Goodwill	—	128,219
Consideration	—	147,548
Satisfied by:		
Cash	—	22,404
Set off against accounts receivable	—	78,794
Set off against other receivable	—	46,350
	—	147,548

Analysis of net outflow of cash and cash equivalents in respect of the acquisition of businesses:

	2005	2004
	$'000	*$'000*
Cash consideration	—	(22,404)
Cash and bank balances acquired	—	22
Net outflow of cash and cash equivalents in respect of the acquisition of businesses	—	(22,382)

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

(i) Disposal of subsidiaries:

	2005	2004
	$'000	*$'000*
Net assets disposed:		
Fixed assets	114	—
Intangible assets	1,181	—
Inventories	1,537	—
Deposits, prepayments and other receivables	590	—
Cash and bank balances	862	—
Accounts payable, accruals and other payables	(451)	—
Taxation payable	(31)	—
	3,802	—
Loss on disposal	(3,288)	—
Release of translation reserves	(514)	—
Consideration	—	—
Satisfied by:		
Cash	—	—

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

	2005	2004
	$'000	*$'000*
Cash consideration	—	—
Cash and bank balances disposed	(862)	—
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(862)	—

(ii) Partial disposal of interest in a subsidiary:

	2005	2004
	$'000	*$'000*
Net assets disposed:		
Fixed assets	796	—
Intangible assets	6	—
Inventories	2,868	—
Accounts receivable	9,721	—
Deposits, prepayments and other receivables	2,424	—
Short-term investments	7,500	—
Cash and bank balances	359	—
Accounts payable, accruals and other payables	(9,497)	—
Provisions	(240)	—
Short-term bank borrowings	(9,910)	—
Taxation payable	(161)	—
Minority interests	(1,427)	—
	2,439	—
Interest in an associated company	(951)	—
Gain on disposal	3,943	—
Consideration	5,431	—
Satisfied by:		
Cash	5,431	—

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

	2005	2004
	$'000	*$'000*
Cash consideration	5,431	—
Cash and bank balances disposed	(359)	—
Net inflow of cash and cash equivalents in respect of the partial disposal of interest in a subsidiary	5,072	—

(f) Analysis of cash and cash equivalents:

	Group	
	2005	**2004**
	$'000	*$'000*
Cash and bank balances	336,208	202,881
Promissory notes with maturity within three months*	476,687	359,803
	812,895	562,684

* Promissory notes with maturity within three months represented receivables from certain independent third parties which were unsecured and bore interest at commercial rates. At 31st May, 2005, all the above promissory notes receivable were due for repayment in the period from June to August 2005 of which approximately $328,799,000 was rolled over upon maturity for another one to three months.

31. CONTINGENT LIABILITIES

At 31st May, 2005, contingent liabilities not provided for by the Group and the Company were summarised below:

	Group		Company	
	2005	**2004**	**2005**	**2004**
	$'000	*$'000*	*$'000*	*$'000*
Discounted bills with recourse	180,141	53,196	—	—
Guarantees given to financial and other institutions in respect of facilities granted to subsidiaries *(Note 16(c))*	—	—	3,881,015	2,090,423
Guarantees given to landlords in respect of rental obligations of subsidiaries	819	114	—	—
Guarantees given to customs in respect of default in customs obligations of subsidiaries	293	656	—	—

In addition, the Company guaranteed the payments and performance by several subsidiaries under certain license agreements pursuant to which the subsidiaries were licensees (Note 16(b)).

32. BANKING FACILITIES

(a) At 31st May, 2005, 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 16(c)).

(b) At 31st May, 2005, certain land and buildings (Note 13(d)), leasehold rights (Note 14(c)) and inventories (Note 19) were pledged as security for banking facilities granted to certain German subsidiaries of the Group.

33. COMMITMENTS

(a) Commitments under operating leases

At 31st May, 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases payable as follows:

	2005		2004	
	Leasehold land and buildings	**Furniture and equipment**	**Leasehold land and buildings**	**Furniture and equipment**
	$'000	*$'000*	*$'000*	*$'000*
Payable:				
— Not later than one year	265,787	17,969	61,608	38,698
— Later than one year and not later than five years	824,218	16,677	181,078	23,108
— Later than five years	496,705	241	266,027	455
	1,586,710	34,887	508,713	62,261

(b) Commitments under license agreements

At 31st May, 2005, the Group had future aggregate minimum royalty payments under license agreements payable as follows:

	2005	2004
	$'000	*$'000*
Payable:		
— Not later than one year	42,999	40,150
— Later than one year and not later than five years	164,243	129,551
— Later than five years	2,145	27,885
	209,387	197,586

(c) **Off-balance sheet financial instruments**

(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, 2005, outstanding forward foreign exchange contracts to buy EUR and USD and sell EUR currency with a notional principal value of approximately EUR3,800,000 (2004: EUR Nil) and US$17,420,000 (2004: US$Nil) and EUR935,000 (2004: EUR2,190,000) equivalent respectively, outstanding forward gold contracts to purchase gold and silver with a notional principal value of approximately US$8,150,000 (2004: US$7,086,000) equivalent, and written currency options (principally Euro Dollars) with a notional principal value of EUR106,560,000 (2004: EUR71,600,000), JP¥430,000,000 (2004: JP¥118,640,000), US$Nil (2004: US$2,000,000) and CHF1,600,000 (2004: CHF Nil) equivalent. Such outstanding contracts were scheduled to settle or expire, through March 2010.

(ii) At 31st May, 2005, the Group had outstanding interest rate swap contracts with a notional amount of approximately $320,000,000 (2004: $290,000,000). Such outstanding contracts were scheduled to settle or expire, through March 2008.

(d) **Purchase commitments**

A subsidiary of the Group entered into purchase agreements with certain third party companies and agreed to purchase certain timepiece components and finished goods from these third party companies during the period from 2004 to 2007. At 31st May, 2005, total outstanding commitment amounted to approximately $162,966,000 (2004: $162,187,500).

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 period from 2005 to 2006. At 31st May, 2005, total outstanding commitment amounted to approximately $407,402,000 (2004: Nil).

Save as disclosed above, neither the Group nor the Company had any significant commitments at 31st May, 2005.

34. RELATED PARTY AND CONNECTED TRANSACTIONS

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

(a) **Related party transactions**

(i) During the year, the Group paid approximately $2,305,000 (2004: $7,403,000) (inclusive of disbursements) to International Taxation Advisory Services Limited, of which Mr. David Wai Kwong WONG, a Director of the Company, was a director, for taxation and corporate advisory services provided. The Directors consider that the fees were paid according to prices and conditions similar to those offered by other external consultants of the Group.

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

	2005	**2004**
	$'000	*$'000*
Interest expense to Rossolini Limited	7	8
Interest expense to Tonic	154	—
Interest expense to Amaretta	126	—
Management fee from Egana Information Technology Limited	—	120
Management fee from Amaretta	1,974	—
Advertising contribution to JOOP!	4,068	—
Purchases from Tonic	26,822	44,530
Purchases from Kuraray Co. Limited and/or its subsidiaries ("Kuraray")	26,636	104,402
Purchase from Amaretta	488	—
Purchase from JOOP!	247	—
Sales to Amaretta	276	—
Sales to Dominique	13,688	7,162
Royalties to JOOP!	12,134	10,443
Interest income from Dominique	88	111
Interest income from Tonic	—	83

(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:

	2005	**2004**
	$'000	*$'000*
(i) Amaretta:		
Purchases from Kuraray (1)	—	74,461
(ii) Lorica Sud s.r.l:		
Purchases from Kuraray (2)	26,636	29,941

(1) According to the Distribution Agreement entered into between Kuraray and Amaretta dated 12th August, 1984, purchase prices were determined through negotiations on commercial terms.

(2) Purchases were transacted based on the terms stated in the Supply Agreement dated 30th March, 2000, while prices were pre-determined as per the price list dated 12th January, 2001 and as amended on 24th February, 2003.

(c) At 31st May, 2005, the amounts due from/(to) associated companies were unsecured, non-interest bearing and repayable within one year except for amounts of approximately $732,000 due to associated companies and an amount of approximately $14,000 due from an associated company which bore interest at commercial lending rates.

(d) At 31st May, 2005, the amounts due to Directors were unsecured, non-interest bearing and repayable within one year.

(e) At 31st May, 2005, loan from a minority shareholder was unsecured, bore interest at commercial lending rates and repayable within one year.

35. SUBSEQUENT EVENTS

(a) Subsequent to 31st May, 2005, the Company issued and allotted shares to CSFB as described in Note 26(a), resulting in an increase in shareholders' funds of approximately $4,674,000. On 9th August, 2005, the Stock Exchange granted the listing approval to a subsidiary as described in Note 26(b) for the issuance of Tranche 4a convertible bonds of up to US$5,000,000 to Merrill Lynch. As at 14th September, 2005, Merrill Lynch has exercised its conversion rights to convert US$2,000,000 Tranche 4a convertible bonds into ordinary shares of the subsidiary, resulting in an increase in shareholders' funds of approximately $15,600,000. The outstanding US$3,000,000 Tranche 4a convertible bonds will be expiring on 31st March, 2009.

(b) On 8th June, 2005, the Company entered into a loan agreement with a syndicate of banks in respect of a EUR60,000,000 loan facility ("EUR60 million Loan Facility"). The proceeds of the EUR60 million Loan Facility have been used 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) to finance the Company's general working capital requirements. The EUR60 million Loan Facility should be repaid in full on or before 7th June, 2010.

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

3. UNAUDITED INTERIM RESULTS OF THE EGANAGOLDPFEIL GROUP FOR THE SIX MONTHS ENDED 30TH NOVEMBER, 2005

The following information has been extracted from the unaudited condensed interim consolidated financial statements of the EganaGoldpfeil Group for the six months ended 30th November, 2005, the page numbers in the statements below refer to the 2005/2006 interim report of EganaGoldpfeil. For the purpose of the extracts set out below, the "Company" means EganaGoldpfeil and the "Group" means "EganaGoldpfeil Group".

The board of directors (the "Board") of EganaGoldpfeil (Holdings) Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th November, 2005 together with the comparative figures for the six months ended 30th November, 2004 which are summarised as under. These results have been reviewed by the Audit Committee of the Company.

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Six months ended	
	Notes	**30th November, 2005** *(Unaudited)* *HK$'000*	**30th November, 2004** *(Unaudited and restated)* *HK$'000*
Turnover	3	2,832,464	1,670,467
Cost of sales		(1,609,977)	(973,905)
Gross profit		1,222,487	696,562
Other revenues		54,107	42,420
Distribution costs		(612,003)	(340,838)
Administrative expenses		(423,067)	(221,996)
Operating profit		241,524	176,148
Finance costs		(64,285)	(38,731)
Profit before share of profit/(loss) of associated companies		177,239	137,417
Share of profit/(loss) of associated companies		13,633	8,885
Profit before taxation	3, 4	190,872	146,302
Taxation	5	(22,727)	(8,790)
Profit for the period		168,145	137,512
Attributable to:			
Equity holders of the Company		147,196	121,058*
Minority interests		20,949	16,454
		168,145	137,512
Dividends	6	36,003	30,204
Earnings per share	7		
Basic		11.56 cents	10.25 cents
Diluted		11.33 cents	9.35 cents
Dividend per share			
Basic		2.83 cents	2.56 cents
Diluted		2.80 cents	2.33 cents
* Distributable Earnings per Interim Report for the 6 months ended 30th November, 2004			88,691*

Note: There were no extraordinary or exceptional items for the above financial periods.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months ended 30th November, 2005	Six months ended 30th November, 2004
	(Unaudited)	*(Unaudited and restated)*
	HK$'000	*HK$'000*
Opening balance — Total equity, as previously reported	1,748,424	1,433,228
Retrospective adjustment — reclassification of leasehold land from fixed assets	(8,713)	738
Retrospective adjustment — reversal of share of asset revaluation reserve of an associated company	(8,794)	(1,281)
Retrospective adjustment — loss on acquisition of additional interests in subsidiaries	(87,457)	(1,457)
Retrospective adjustment — reclassification of minority interests to equity	276,181	150,004
Retrospective adjustment — reclassification of convertible bonds to equity	13,035	50,032
Negative goodwill transferred to retained profits	—	40,813
Opening balance — Total equity, as restated	1,932,676	1,672,077
(Deficit)/Surplus on revaluation of available-for-sale financial assets/investments in non-trading securities	(30,031)	7,944
Exchange differences on translation of the financial statements of foreign subsidiaries and associated companies	(4,844)	(775)
Share of exchange translation reserve surplus/(deficit) of an associated company	974	(139)
Net (expense)/income recognised directly in equity	(33,901)	7,030
Profit for the period	168,145	137,512
Realisation of reserves upon disposal of available-for-sale financial assets	6,229	—
Loss on acquisition of additional interests in subsidiaries	—	(80,639)
Shares issued upon conversion of convertible bonds	5,240	31,604
Expenses incurred in connection with conversion of convertible bonds and issue of shares	(12)	(28)
Issue of convertible bonds of a subsidiary	22,803	—
Conversion of convertible bonds of a subsidiary	12,595	66,284
Acquisition of additional interest in a subsidiary	—	(26,502)
Acquisition of a subsidiary	—	3,731
Partial disposal of interest in a subsidiary	—	(1,396)
Dividends declared	(44,678)	(29,846)
Dividends paid to minority interests	(500)	(500)
Closing balance — Total equity	2,068,597	1,779,327

CONSOLIDATED BALANCE SHEET

	Notes	As at 30th November, 2005 *(Unaudited)* *HK$'000*	As at 31st May, 2005 *(Audited and restated)* *HK$'000*
Non-current assets			
Fixed assets	8	341,622	336,622
Leasehold land	9	21,248	21,583
Intangible assets	10	676,201	702,643
Deferred tax assets		116,561	128,088
Interests in associated companies		165,568	152,646
Available-for-sale financial assets	11	348,040	—
Investments in non-trading securities	11	—	527,876
		1,669,240	1,869,458
Current assets			
Inventories		1,266,684	1,160,671
Accounts receivable, net	12	769,730	450,036
Deposits, prepayments and other receivables		725,308	411,204
Due from an associated company		18,146	11,528
Derivative financial instruments		9,901	—
Investments held for trading		298	—
Short-term investments		—	83,317
Cash and cash equivalents		1,012,911	812,895
		3,802,978	2,929,651
Current liabilities			
Accounts payable	13	(303,899)	(252,796)
Accruals and other payables		(438,340)	(453,234)
Bills payable		(193,958)	(166,877)
Provisions		(9,825)	(7,646)
Derivative financial instruments		(38,850)	—
Short-term bank borrowings	14	(908,223)	(1,121,902)
Current portion of long-term bank borrowings	14	(122,612)	(89,464)
Convertible bonds		(5,117)	(10,365)
Current portion of other long-term liabilities		(35,212)	(28,996)
Current portion of obligations under finance leases		(644)	(8,766)
Current portion of pensions and other post retirement obligations		(8,394)	(14,724)
Due to associated companies		(3,339)	(4,693)
Due to Directors		(5)	(481)
Loan from a minority shareholder		(1,245)	(1,324)
Taxation payable		(14,128)	(17,695)
Final dividend payable		(44,678)	—
		(2,128,469)	(2,178,963)

CONSOLIDATED BALANCE SHEET

	Notes	As at 30th November, 2005 (Unaudited) HK$'000	As at 31st May, 2005 (Audited and restated) HK$'000
Net current assets		1,674,509	750,688
Total assets less current liabilities		3,343,749	2,620,146
Non-current liabilities			
Long-term bank borrowings	14	(1,020,379)	(458,543)
Other long-term liabilities		(39,545)	(5,308)
Convertible bonds		(3,600)	—
Pensions and other post retirement obligations		(205,552)	(215,928)
Deferred tax liabilities		(6,076)	(7,691)
		(1,275,152)	(687,470)
Net assets		2,068,597	1,932,676
Capital and reserves			
Share capital	15	1,276,526	1,271,286
Reserves	16	438,934	340,614
Proposed interim/final dividend		36,003	44,595
Equity attributable to equity holders of the Company		1,751,463	1,656,495
Minority interests	16	317,134	276,181
Total Equity		2,068,597	1,932,676

CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30th November, 2005	Six months ended 30th November, 2004
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Cash (used in)/generated by operations	(367,199)	277,388
Interest paid	(46,772)	(28,598)
Tax paid	(18,472)	(6,519)
Tax refund	1,213	3,247
Net cash (used in)/from operating activities	(431,230)	245,518
Net cash from/(used in) investing activities	160,224	(195,427)
Net cash from financing activities	479,995	36,068
Net increase in cash and cash equivalents	208,989	86,159
Cash and cash equivalents at 1st June, 2005/1st June, 2004	812,895	562,684
Effect of foreign exchange rate changes	(8,973)	5,306
Cash and cash equivalents at 30th November, 2005/ 30th November, 2004	1,012,911	654,149
Analysis of cash and cash equivalents:		
Cash and bank balances	407,311	239,444
Promissory notes	605,600	414,705
	1,012,911	654,149

Notes:

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

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

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

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the profit and loss account, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associated companies have been changed under HKAS 1 "Presentation of Financial Statements" and HKAS 27 "Consolidated and Separate Financial Statements", respectively. The changes in presentation have been applied retrospectively.

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

Trademarks, goodwill and negative goodwill

Subsequent to 30th November, 2004, the Group decided to early adopt HKFRS 3 "Business Combinations" together with HKAS 36 "Impairment of Assets" and HKAS 38 "Intangible Assets" in 2005. Since 1st June, 2004, amortisation of the acquired trademarks and positive goodwill has been discontinued and negative goodwill has been recognised immediately in the profit and loss account. As a result, the profit attributable to equity holders of the Company for the six months ended 30th November, 2004 is increased by approximately HK$12 million as compared with that previously disclosed in the previous interim accounts.

Leasehold land

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

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

The new accounting policies have been adopted retrospectively, with the opening balances of retained profits and the land and buildings revaluation reserve and the comparative information adjusted for the amounts relating to prior period. As a result, the opening retained profits as at 1st June, 2005 was increased by approximately HK$1 million.

Financial instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosures and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS

39, which is effective for accounting periods beginning on or after 1st January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

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

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

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

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

Non-trading securities

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

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

Trading securities

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

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

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

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

As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets".

Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". "Other financial liabilities" are carried at amortised cost using the effective interest method. The adoption of HKAS 39 has no material impact on the financial assets and financial liabilities other than debt and equity securities of the Group.

(b) ***Derivative financial instruments***

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

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

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

Up to 31st May, 2005, assets related to derivative financial instruments which are marked to market are included in "deposits, prepayments and other receivables" in the accounts. Liabilities resulting from such contracts are included in "accounts payable, accruals and other payables" in the accounts.

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

(c) ***Derecognition***

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

(d) ***Convertible bonds***

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

Minority interests

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

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

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

Gain or loss arising from transactions with minority interests are now recognised directly in equity and such policy has been applied retrospectively. As a result, the profit attributable to equity holders of the Company for the six months ended 30th November, 2004 is increased by approximately HK$20 million as compared with that previously disclosed in the interim accounts.

Share-based payments

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

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

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

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

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

2. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

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

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

	As at 31st May, 2005 *(previously reported)*	HKAS 17	Retrospective adjustments HKAS 27	HKAS 32	As at 31st May, 2005 *(restated)*	Adjustments on 1st June, 2005 HKAS 39	As at 1st June, 2005 *(restated)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Current portion of pensions and other post retirement obligations	(14,724)	—	—	—	(14,724)	—	(14,724)
Due to associated companies	(4,693)	—	—	—	(4,693)	—	(4,693)
Due to Directors	(481)	—	—	—	(481)	—	(481)
Loan from a minority shareholder	(1,324)	—	—	—	(1,324)	—	(1,324)
Taxation payable	(17,695)	—	—	—	(17,695)	—	(17,695)
Long-term bank borrowings	(458,543)	—	—	—	(458,543)	—	(458,543)
Other long-term liabilities	(5,308)	—	—	—	(5,308)	—	(5,308)
Pensions and other post retirement obligations	(215,928)	—	—	—	(215,928)	—	(215,928)
Deferred tax liabilities	(9,606)	1,915	—	—	(7,691)	—	(7,691)
Total effects on assets and liabilities	2,024,392	(17,294)	(87,457)	13,035	1,932,676	—	1,932,676
Minority interests	(275,968)	(213)	276,181	—	—	—	—
	1,748,424	(17,507)	188,724	13,035	1,932,676	—	1,932,676
Share capital	1,271,286	—	—	—	1,271,286	—	1,271,286
Reserves	432,543	(17,507)	(87,457)	13,035	340,614	—	340,614
Proposed final dividend	44,595	—	—	—	44,595	—	44,595
Equity attributable to equity holders of the Company	1,748,424	(17,507)	(87,457)	13,035	1,656,495	—	1,656,495
Minority interests	—	—	276,181	—	276,181	—	276,181
Total effects on total equity	1,748,424	(17,507)	188,724	13,035	1,932,676	—	1,932,676

3. SEGMENTAL INFORMATION

(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 and investments held for trading and available-for-sale financial assets (trading and non-trading securities in prior period). Strategic investments include investments in listed/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.

Six months ended 30th November, 2005

	Timepieces	Jewellery	Leather & lifestyle products	Investments	Eliminations	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	954,659	433,124	1,444,681	—	—	2,832,464
Inter-segment revenue	8,973	1,658	3,888	—	(14,519)	—
Dividend income	—	—	—	2,081	—	2,081
Segment results	80,265	75,964	82,912	2,383	—	241,524
Finance costs						(64,285)
Profit before share of profit of associated companies						177,239
Share of profit of associated companies						13,633

	Six months ended 30th November, 2005					
	Timepieces	**Jewellery**	**Leather & lifestyle products**	**Investments**	**Eliminations**	**Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Profit before taxation						190,872
Taxation						(22,727)
Profit for the period						168,145
Attributable to:						
Equity holders of the Company						147,196
Minority interests						20,949
						168,145
Capital expenditure	17,215	9,191	35,612	—	—	62,018
Depreciation	9,064	4,699	21,151	—	—	34,914
Amortisation	5,893	1,099	2,342	—	—	9,334
Write-back of provision for bad debts	1,064	80	1,056	—	—	2,200
Bad debt expense	693	284	213	—	—	1,190
Write-back of provision for inventory	—	2,468	37,495	—	—	39,963
Provision for inventory	2,283	—	4,891	—	—	7,174
	As at 30th November, 2005					
Segment assets	1,912,249	1,343,247	1,702,816	348,338	—	5,306,650
Interests in associated companies	165,150	(59)	477	—	—	165,568
Total assets						5,472,218
Segment liabilities	(2,080,903)	(724,359)	(598,359)	—	—	(3,403,621)
Total liabilities						(3,403,621)

	Six months ended 30th November, 2004 *(Restated)*					
	Timepieces	**Jewellery**	**Leather & lifestyle products**	**Investments**	**Eliminations**	**Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	839,858	420,668	409,941	—	—	1,670,467
Inter-segment revenue	8,531	3,791	3,558	—	(15,880)	—
Dividend income	—	—	—	559	—	559
Segment results	97,058	60,965	17,566	559	—	176,148
Finance costs						(38,731)
Profit before share of profit of associated companies						137,417
Share of profit of associated companies						8,885
Profit before taxation						146,302
Taxation						(8,790)
Profit for the period						137,512
Attributable to:						
Equity holders of the Company						121,058
Minority interests						16,454
						137,512
Captial expenditure	324	3,545	10,466	—	—	14,335
Depreciation	9,185	3,915	8,472	—	—	21,572
Amortisation	7,608	1,117	2,087	—	—	10,812
Write-back of provision for bad debts	—	291	—	—	—	291
Bad debt expense	1,376	331	373	—	—	2,080
Write-back of provision for inventory	—	22,748	—	—	—	22,748
Provision for inventory	2,156	—	1,791	—	—	3,947

	Timepieces	Jewellery	Leather & lifestyle products	Investments	Eliminations	Group
	As at 31st May, 2005 *(Restated)*					
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets	1,312,426	1,163,056	1,642,787	528,194	—	4,646,463
Interests in associated companies	152,616	(58)	88	—	—	152,646
Total assets						4,799,109
Segment liabilities	(1,507,734)	(653,377)	(705,322)	—	—	(2,866,433)
Total liabilities						(2,866,433)

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

The Group's operations are mainly located in Europe, Asia Pacific and America. In determing the Group's geographical segments, turnover is attributed to the segments based on the destination of merchandise. Segment assets and capital expenditure were based on the geographical locations of the assets.

	Six months ended 30th November, 2005			As at 30th November, 2005
	Turnover	Segment results	Capital expenditure	Total assets
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Europe	2,402,241	189,779	50,305	2,803,087
America	112,115	(716)	1,245	113,039
Asia Pacific	318,108	52,461	10,468	2,390,524
	2,832,464	241,524	62,018	5,306,650
Interests in associated companies				165,568
Total assets				5,472,218

	Six months ended 30th November, 2004 *(Restated)*			As at 31st May, 2005
	Turnover	**Segment results**	**Capital expenditure**	**Total assets** *(Restated)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Europe	1,330,562	129,039	4,683	2,414,602
America	92,181	(900)	2,954	84,625
Asia Pacific	247,724	48,009	6,698	2,147,236
	1,670,467	176,148	14,335	4,646,463
Interests in associated companies				152,646
Total assets				4,799,109

4. PROFIT BEFORE TAXATION

The Group's profit before taxation is arrived at after crediting and charging the following:

	Six months ended 30th November, 2005	Six months ended 30th November, 2004 *(Restated)*
	HK$'000	*HK$'000*
Crediting:		
Interest income	24,910	17,495
Exchange gain, net	—	19,695
Net fair value gain on financial instruments		
— interest rate swap: cash flow hedges	3,944	—
Gain on derivative financial instruments		
— forward foreign exchange contracts	2,445	—
— forward gold contracts	371	—
Charging:		
Depreciation of fixed assets	34,914	21,572
Amortisation of intangible assets	8,999	10,482
Amortisation of leasehold land	335	330
Exchange loss, net	20,911	—
Interest expenses	53,274	28,011
Loss on derivative financial instruments		
— currency options, net	566	—

5. TAXATION

Taxation comprised:

	Six months ended 30th November, 2005	30th November, 2004
	HK$'000	*HK$'000*
Company and subsidiaries		
Current taxation:		
Hong Kong profits tax		
— Provision for current period	2,921	10,488
— Over-provision in prior periods	—	(6,160)
Overseas income tax		
— Provision for current period	10,946	2,356
— Under/(Over)-provision in prior periods	83	(757)
Deferred taxation — Recognised during the period	8,777	2,863
	22,727	8,790

Hong Kong profits tax was provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit arising in or derived from Hong Kong. Overseas income tax was provided by subsidiaries with overseas operations on their estimated assessable profits for the period at the tax rates applicable in the countries in which the subsidiaries operated.

6. INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK2.8 cents per share (2004: HK2.5 cents) payable on 29th March, 2006 to shareholders whose names appear on the register of members of the Company on 15th March, 2006.

7. EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share was calculated based on the consolidated profit attributable to equity holders of the Company for the period of approximately HK$147,196,000 (2004: HK$121,058,000) and the weighted average number of ordinary shares of approximately 1,273,634,000 (2004: 1,180,528,000) in issue during the period.

(b) Diluted earnings per share

Diluted earnings per share was calculated based on the adjusted consolidated profit attributable to equity holders of the Company for the period of approximately HK$145,621,000 (2004: HK$121,322,000) and the weighted average number of ordinary shares of approximately 1,285,486,000 (2004: 1,298,229,000) that would be in issue having adjusted for the effects of all dilutive potential ordinary shares issuable during the period.

(c) **Reconciliation**

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

	Six months ended 30th November, 2005	Six months ended 30th November, 2004 *(restated)*
	HK$'000	*HK$'000*
Profit attributable to equity holders of the Company used in calculating basic earnings per share	147,196	121,058
Dilutive potential effect in the earnings of a subsidiary in respect of convertible bonds of the subsidiary	(1,609)	—
Interest savings in respect of convertible bonds	34	264
Profit attributable to equity holders of the Company used in calculating diluted earnings per share	145,621	121,322

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

	Six months ended 30th November, 2005	Six months ended 30th November, 2004
Weighted average number of ordinary shares used in calculating basic earnings per share	1,273,634,000	1,180,528,000
Dilutive potential effect in respect of		
— Convertible bonds	11,822,000	117,692,000
— Share options of the Company	30,000	9,000
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,285,486,000	1,298,229,000

8. FIXED ASSETS

	Property, plant and equipment *HK$'000*
Carrying value as at 1st June, 2005, as previously reported	368,620
Effect of adopting HKAS 17	(31,998)
Carrying value as at 1st June, 2005, as restated	336,622
Additions	57,514
Exchange adjustments and disposals	(17,600)
Charge for the period	(34,914)
Carrying value as at 30th November, 2005	341,622

9. LEASEHOLD LAND

	HK$'000
Carrying value as at 1st June, 2005, as previously reported	—
Effect of adopting HKAS 17	21,583
Carrying value as at 1st June, 2005, as restated	21,583
Charge for the period	(335)
Carrying value as at 30th November, 2005	21,248

10. INTANGIBLE ASSETS

	HK$'000
Carrying value as at 1st June, 2005, as previously reported	790,100
Effect of adopting HKAS 27	(87,457)
Carrying value as at 1st June, 2005, as restated	702,643
Additions	4,504
Exchange adjustments and disposals	(21,947)
Charge for the period	(8,999)
Carrying value as at 30th November, 2005	676,201

11. INVESTMENTS IN NON-TRADING SECURITIES/AVAILABLE-FOR-SALE FINANCIAL ASSETS

At 30th November, 2005, the available-for-sale financial assets were stated at fair values which were determined by the Directors or according to quoted market prices and the revaluation deficit of approximately HK$30,031,000 (2004: a surplus of HK$7,944,000) was recorded in the revaluation reserve. In the opinion of the Directors, there was no indication of impairment in the carrying values of the investments/financial assets.

12. ACCOUNTS RECEIVABLE AGING ANALYSIS

The Group allows an average credit period of 30-120 days to its trade customers. Aging analysis of accounts receivable after provision for bad and doubtful debts is as follows:

	As at 30th November, 2005	**As at 31st May, 2005**
	HK$'000	*HK$'000*
Current month	530,192	308,254
Between 1 to 2 months	89,997	51,404
Between 2 to 3 months	49,783	24,744
Between 3 to 4 months	49,452	16,780
Over 4 months	50,306	48,854
	769,730	450,036

13. ACCOUNTS PAYABLE AGING ANALYSIS

Aging analysis of accounts payable is as follows:

	As at 30th November, 2005	**As at 31st May, 2005**
	HK$'000	*HK$'000*
Current month	207,564	195,405
Between 1 to 2 months	32,602	17,785
Between 2 to 3 months	28,780	12,516
Between 3 to 4 months	14,670	6,980
Over 4 months	20,283	20,110
	303,899	252,796

14. BANK BORROWINGS

(a) **Short-term bank borrowings comprised:**

	As at 30th November, 2005	**As at 31st May, 2005**
	HK$'000	*HK$'000*
Bank loans and overdrafts	621,468	918,221
Trust receipts and import loans	286,755	203,681
	908,223	1,121,902

(b) **Long-term bank borrowings:**

	As at 30th November, 2005	**As at 31st May, 2005**
	HK$'000	*HK$'000*
Repayable within a period of		
— not exceeding 1 year		
Secured	8,650	10,263
Unsecured	113,962	79,201
— more than 1 year, but not exceeding 2 years		
Secured	7,078	7,499
Unsecured	306,967	212,361
— more than 2 years, but not exceeding 5 years		
Secured	10,580	14,286
Unsecured	695,070	222,936
— after 5 years		
Secured	684	1,461
Unsecured	—	—
	1,142,991	548,007
Less: Amounts repayable within 1 year included under current liabilities	(122,612)	(89,464)
	1,020,379	458,543

15. SHARE CAPITAL

	Number of shares	Nominal value of each share	Nominal value of shares
		HK$	*HK$'000*
Balance as at 1st June, 2005	1,271,286,051	1.00	1,271,286
Issued upon conversion of convertible bonds	5,240,000	1.00	5,240
Balance as at 30th November, 2005	1,276,526,051	1.00	1,276,526

16. RESERVES AND MINORITY INTERESTS

	Attributable to equity holders of the Company												
	Share premium account	Convertible bonds	Exchange translation reserve	Retained profits	Revaluation reserve	Available-for-sale financial assets revaluation reserve	Capital redemption reserve	Goodwill	Legal reserve	Other reserves	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance as at 1st June, 2005, as previously reported	363,311	—	(205,154)	710,454	20,984	—	40,801	(454,108)	270	580	477,138	—	477,138
Effect of adopting HKAS 17	—	—	—	1,039	(18,546)	—	—	—	—	—	(17,507)	213	(17,294)
Effect of adopting HKAS 27	—	—	—	(87,457)	—	—	—	—	—	—	(87,457)	275,968	188,511
Effect of adopting HKAS 32 & 39	—	13,035	—	—	(2,438)	2,438	—	—	—	—	13,035	—	13,035
Balance as at 1st June, 2005, as restated	363,311	13,035	(205,154)	624,036	—	2,438	40,801	(454,108)	270	580	385,209	276,181	661,390
Premium arising from conversion of convertible bonds	3,332	(3,332)	—	—	—	—	—	—	—	—	—	—	—
Expenses incurred in connection with issue of shares	(12)	—	—	—	—	—	—	—	—	—	(12)	—	(12)
Issue of convertible bonds of a subsidiary	—	22,803	—	—	—	—	—	—	—	—	22,803	—	22,803
Conversion of convertible bonds of a subsidiary	—	(14,703)	—	(4,391)	—	—	—	—	—	—	(19,094)	31,689	12,595
Minority share of equity portion of convertible bonds	—	(3,366)	—	—	—	—	—	—	—	—	(3,366)	3,366	—
Share of exchange translation reserve surplus of an associated company	—	—	974	—	—	—	—	—	—	—	974	—	974
Revaluation of listed available-for-sale financial assets	—	—	—	—	—	(19,471)	—	—	—	—	(19,471)	(10,560)	(30,031)
Disposal of unlisted available-for-sale financial assets	—	—	—	—	—	5,835	—	—	—	—	5,835	394	6,229
Profit for the period	—	—	—	147,196	—	—	—	—	—	—	147,196	20,949	168,145
Final dividend	—	—	—	(44,678)	—	—	—	—	—	—	(44,678)	—	(44,678)
Interim dividend declared	—	—	—	(36,003)	—	—	—	—	—	—	(36,003)	—	(36,003)
Dividends paid to minority interests	—	—	—	—	—	—	—	—	—	—	—	(500)	(500)
Exchange differences arising on translation of financial statements of foreign subsidiaries and associated companies	—	—	(459)	—	—	—	—	—	—	—	(459)	(4,385)	(4,844)
Balance as at 30th November, 2005	366,631	14,437	(204,639)	686,160	—	(11,198)	40,801	(454,108)	270	580	438,934	317,134	756,068

17. RELATED PARTY TRANSACTIONS

(a) During the period, the Group entered into transactions with the following associated companies - Tonic Industries Holdings Limited ("Tonic"),Dominique Roger Diffusion S.A.R.L. ("Dominique"), Amaretta GmbH ("Amaretta") and JOOP! GmbH ("JOOP!") and a related company — Kuraray Co. Limited and its subsidiaries ("Kuraray group"). In the opinion of the Directors, the following transactions arose in the ordinary course of the Group's business:

	Six months ended	
	30th November, 2005	**30th November, 2004**
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Purchases from Amaretta	13	—
Purchases from Tonic	14,184	9,861
Purchases from Kuraray group	14,369	12,161
Sales to Dominique	12,511	5,213
Royalties to JOOP!	6,773	6,282
Interest income from Dominique	—	73
Interest expense to Amaretta	59	—
Interest expense to Tonic	460	—
Advertising contribution to JOOP!	2,965	—
Advertising contribution to Dominique	52	—
Management fee from Amaretta	811	—
Rental income from Amaretta	907	—

Notes:

i. Sales and purchases of goods were determined with reference to published prices and market conditions.

ii. Management fee and royalties were charged according to the terms of the relevant agreements.

iii. Trading transactions with Kuraray group also constituted connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

iv. Interest was charged at the commerical rate.

v. Advertising contribution and rental income were charged at a cost basis.

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

	Six months ended 30th November, 2005 (Unaudited) HK$'000	Six months ended 30th November, 2004 (Unaudited) HK$'000
Salaries and other short-term employee benefits	55,092	42,887
Termination benefits	1,956	—
Post-employment benefits	1,654	1,003
	58,702	43,890

(c) The Group paid HK$Nil (2004: HK$2,432,000) to International Taxation Advisory Services Limited, of which Mr. David Wai Kwong WONG, a Director of the Company, was a director, for corporate advisory services rendered. The Directors consider that the fees were paid according to prices and conditions similar to those offered by other external consultants of the Group.

18. CONTINGENT LIABILITIES

Contingent liabilities not provided for by the Group were summarised below:

	As at 30th November, 2005 HK$'000	As at 31st May, 2005 HK$'000
Discounted bills with recourse	—	180,141
Guarantees given to landlords in respect of rental obligations of group companies	904	819
Guarantees given to customs in respect of default in customs obligations of group companies	276	293

As mentioned in Note 1, the Group's discounted bills with recourse, which were previously treated as contingent liabilities, have been accounted for as actual liabilities prospectively on or after 1st June, 2005 under HKAS 39.

4. INDEBTEDNESS

At the close of business on 30th June, 2006, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this document, the EganaGoldpfeil Group had outstanding bank borrowings of approximately HK$2,441 million, obligations under finance leases of approximately HK$14 million and other borrowings of approximately HK$86 million. The EganaGoldpfeil Group's banking facilities for bank borrowings of approximately HK$3,240 million were secured by unconditional and continuing corporate guarantee provided by the EganaGoldpfeil Group and cross guarantees among its subsidiaries. Certain freehold land and buildings, leasehold rights and inventories were pledged as security for banking facilities granted to certain subsidiaries of the EganaGoldpfeil Group.

The EganaGoldpfeil Group had no material contingent liabilities as at 30th June, 2006.

As at the close of business on 30th June, 2006, save as disclosed in this section headed "Indebtedness" and apart from inter-group liabilities and normal trade and other payables in the ordinary course of the business of the EganaGoldpfeil Group, the EganaGoldpfeil Group did not have any outstanding mortgages, charges, debentures, loan capital or other similar indebtedness, or hire-purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the approximate exchange rates prevailing at the close of business on 30th June, 2006. The EganaGoldpfeil Directors have confirmed that there has been no material change in the EganaGoldpfeil Group's indebtedness and contingent liability position since 30th June, 2006.

5. MATERIAL CHANGES

The EganaGoldpfeil Directors confirm that save as disclosed in the interim results of EganaGoldpfeil for the six months ended 30th November, 2005, there were no material changes in the financial or trading position or outlook of EganaGoldpfeil since 31st May, 2005, the date to which the last published audited consolidated financial statements of EganaGoldpfeil were made up, up to the Latest Practicable Date.

1. RESPONSIBILITY STATEMENT

This document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Scheme of Arrangement, EganaGoldpfeil and the Company.

The directors of EganaGoldpfeil jointly and severally accept full responsibility for the accuracy of the information contained in this document, other than those relating to the Company, and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document, other than those expressed by the Company, have been arrived at after due and careful consideration and there are no facts, other than facts relating to the Company, not contained in this document, the omission of which would make any statement in this document misleading.

The directors of the Company jointly and severally accept full responsibility for the accuracy of the information contained in this document, other than those relating to EganaGoldpfeil, and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document, other than those expressed by EganaGoldpfeil, have been arrived at after due and careful consideration and there are no facts, other than facts relating to EganaGoldpfeil, not contained in this document, the omission of which would make any statement in this document misleading.

2. MARKET PRICES

Shares

(a) The lowest and highest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK$1.11 per Share on 17 and 23 January 2006 and HK$1.88 per Share on 12 July 2006, 10 August 2006 and 14 August 2006 respectively.

(b) The table below sets out the closing prices of the Shares on the Stock Exchange on the last business day of each of the six calendar months immediately preceding the Announcement on which trading of the Shares took place:

	Closing price *(HK$)*
27 January 2006	1.30
28 February 2006	1.44
31 March 2006	1.53
28 April 2006	1.53
30 May 2006	1.49
30 June 2006	1.61

(c) The closing price of the Shares on the Stock Exchange on the Last Trading Date was HK$ 1.58.

(d) The closing price of the Shares on the Stock Exchange on the Latest Practicable Date was HK$1.86.

EganaGoldpfeil Shares

(a) The lowest and highest closing prices of the EganaGoldpfeil Shares as quoted on the Stock Exchange during the Relevant Period were HK$1.87 per EganaGoldpfeil Share on 16 and 18 January 2006 and HK$3.40 per EganaGoldpfeil Share on 2 May 2006 respectively.

(b) The table below sets out the closing prices of the EganaGoldpfeil Shares on the Stock Exchange on the last business day of each of the six calendar months immediately preceding the Announcement on which trading of the EganaGoldpfeil Shares took place:

	Closing price *(HK$)*
27 January 2006	2.375
28 February 2006	2.700
31 March 2006	2.650
28 April 2006	3.250
30 May 2006	3.075
30 June 2006	3.150

(c) The closing price of the EganaGoldpfeil Shares on the Stock Exchange on the Last Trading Date was HK$3.30.

(d) The closing price of the EganaGoldpfeil Shares on the Stock Exchange on the Latest Practicable Date was HK$2.97.

3. DISCLOSURE OF INTERESTS

(a) Director's interests and short positions in the Shares and the Company's associated corporations

As at the Latest Practicable Date, the interests or short positions of the Directors in the Shares, underlying Shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be disclosed under the Takeovers Code and/or notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered into the register required to be kept under Section 352 of the SFO were as follows:

Long position in the shares and underlying shares of:

	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 in the Company								
Hans-Joerg SEEBERGER	—	—	—	246,121,144 *(Note)*	246,121,144	54.63%	—	54.63%

Note: 178,999,544 Shares and 67,121,600 Shares were registered in the name of EganaGoldpfeil and Glorious Concept Limited respectively. Glorious Concept Limited is a wholly-owned subsidiary of Eco-Haru Mfr. Holdings Limited which in turn is a wholly-owned subsidiary of EganaGoldpfeil. Mr. Seeberger has an indirect interest in Glorious Concept Limited through EganaGoldpfeil. By virtue of his interest in EganaGoldpfeil through PIL (a wholly-owned subsidiary of the Captive Insurance Trust), Mr. Seeberger was deemed to be interested in these Shares. Captive Insurance Trust is a discretionary trust whose prospective beneficiaries include Mr. Seeberger and his family. The Captive Insurance Trust does not directly hold any EganaGoldpfeil Shares.

Associated Corporation

EganaGoldpfeil

	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 EganaGoldpfeil Shares								
Hans-Joerg SEEBERGER	—	—	—	478,620,553 *(Note i)*	478,620,553	37.22%	12,000,000 *(Note iii)*	38.16%
Peter Ka Yue LEE	530,291	—	8,191,773 *(Note ii)*	—	8,722,064	0.68%	500,000 *(Note iii)*	0.72%
Michael Richard POIX	2,884,666	—	—	—	2,884,666	0.22%	500,000 *(Note iii)*	0.26%
Ho Yin CHIK	18,464	—	—	—	18,464	0%	144,800 *(Note iv)*	0.01%
Shunji SAEKI	53,000	8,640	—	—	61,640	0%	179,000 *(Note v)*	0.02%

Notes:

i. These shares were registered in the name of PIL and its nominee which held the same as nominee for the Captive Insurance Trust, a discretionary trust whose prospective beneficiaries include Mr. 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 EganaGoldpfeil Share, were granted pursuant to EganaGoldpfeil's Executive Share Option Scheme.

iv. The options, exercisable at HK$3.45 per EganaGoldpfeil Share, were granted pursuant to EganaGoldpfeil's Executive Share Option Scheme.

v. 99,000 and 80,000 options, exercisable at HK$1.28 and HK$2.11 per EganaGoldpfeil Share respectively, were granted pursuant to EganaGoldpfeil's Executive Share Option Scheme.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any interests or short positions in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be disclosed under the Takeovers Code and/or notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered into the register required to be kept under Section 352 of the SFO.

(b) **Interests and short positions of substantial shareholders and other persons required to be disclosed under the SFO**

As at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have, an interest or short position in the securities of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	**Number of Shares**	**Percentage of shareholding**	**Aggregate long position in Shares and underlying Shares relative to the existing issued share capital of the Company**
		%	%
Glorious Concept Limited *(Note i)*	67,121,600	14.90	14.90
Eco-Haru Mfr. Holdings Limited *(Note i)*	67,121,600	14.90	14.90
EganaGoldpfeil *(Note ii)*	246,121,144	54.63	54.63
Forum European Smallcaps GmbH	23,536,000	5.22	5.22

Notes:

i. Glorious Concept Limited is a wholly-owned subsidiary of Eco-Haru Mfr. Holdings Limited, which in turn is wholly-owned by EganaGoldpfeil.

ii. The interest includes 178,999,544 and 67,121,600 Shares held by EganaGoldpfeil and Glorious Concept Limited respectively.

iii. All the interests stated above represent long positions.

(c) Save and except the 246,121,144 Shares set out above, the EganaGoldpfeil Group did not own or control any Shares or convertible securities, warrants, options or derivatives in respect of the Shares as at the Latest Practicable Date.

(d) The following table shows the shareholdings in the Company in which directors of EganaGoldpfeil own, control or are interested:

Name and capacity	**Number of Shares held**	**Percentage of shareholding**
Hans-Joerg SEEBERGER, Chief Executive	246,121,144 *(Note)*	54.63%

Note: 178,999,544 Shares and 67,121,600 Shares were registered in the name of EganaGoldpfeil and Glorious Concept Limited respectively. Glorious Concept Limited is a wholly-owned subsidiary of Eco-Haru Mfr. Holdings Limited which in turn is a wholly-owned subsidiary of EganaGoldpfeil. Mr. Seeberger has an indirect interest in Glorious Concept Limited through EganaGoldpfeil. By virtue of his interest in EganaGoldpfeil through PIL (which is a wholly-owned subsidiary of the Captive Insurance Trust), Mr. Seeberger was deemed to be interested in these Shares. Captive Insurance Trust is a discretionary trust whose prospective beneficiaries include Mr. Seeberger and his family. Captive Insurance Trust does not directly hold any EganaGoldpfeil Shares.

Except as disclosed in this section, as at the Latest Practicable Date, none of EganaGoldpfeil, the EganaGoldpfeil Directors or persons acting in concert with each of them owned or controlled any Shares or convertible securities, warrants, options or derivatives in respect of any Shares.

The table below shows the interest held, or deemed to be held, by EganaGoldpfeil and parties acting in concert with it in the Shares and Options as at the Latest Practicable Date:

Names of Shareholders or Optionholders (as the case maybe)	No. of Shares held	Percentage of the issued share capital of the Company
EganaGoldpfeil	246,121,144	54.63%

(e) As at the Latest Practicable Date, no one who owns or controls Shares, EganaGoldpfeil Shares and/or convertible securities, warrants, options or derivatives in respect of the Shares and/or EganaGoldpfeil Shares has irrevocably committed himself, herself or itself to (i) vote in favour of or against the resolutions in respect of the Proposal at the Court Meeting and at the EGM or (ii) accept the Option Offer.

(f) As at the Latest Practicable Date, there were no holdings of Shares, EganaGoldpfeil Shares and/or convertible securities, warrants, options or derivatives in respect of the Shares and/or the EganaGoldpfeil Shares, owned or controlled by any person with whom EganaGoldpfeil or any person acting in concert with it has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code.

(g) As at the Latest Practicable Date, save as otherwise disclosed in paragraph (d) of this section, (i) none of the directors of EganaGoldpfeil had an interest in the Shares and/or convertible securities, warrants, options or derivatives in respect of the Shares; (ii) none of the persons acting in concert or deemed to be acting in concert with EganaGoldpfeil owned or controlled any of the Shares and/or convertible securities, warrants, options or derivatives in respect of the Shares; and (iii) no Shares and/or convertible securities, warrants, options or derivatives in respect of the Shares are owned or controlled by any persons who, prior to the posting of this document, have irrevocably committed themselves to vote either for or against the Proposal at the Court Meeting and the EGM.

(h) As at the Latest Practicable Date, none of EganaGoldpfeil, or any persons acting in concert with each of them had any arrangement with any other person of the kind referred to in Note 8 to Rule 22 of the Takeovers Code.

(i) As at the Latest Practicable Date, save as disclosed in 3(a) above, neither the Company nor any of the Directors was interested in any securities in EganaGoldpfeil.

(j) As at the Latest Practicable Date, no subsidiary of the Company, or any pension fund of the Company or of any other member of the Group or any adviser to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code (but excluding exempt principal traders) owned or controlled any Shares, EganaGoldpfeil Shares, or convertible securities, warrants, options or derivatives in respect of Shares and/or EganaGoldpfeil Shares.

(k) As at the Latest Practicable Date, no shareholding in EganaGoldpfeil or the Company was managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company.

(l) As at the Latest Practicable Date, neither the Company nor any of its associates by virtue of classes (1), (2), (3) or (4) of the definition of "associate" under the Takeovers Code has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any person.

(m) As at the Latest Practicable Date, the authorised share capital of the Company was HK$250,000,000 comprising 500,000,000 Shares of HK$0.50 each. The issued share capital of the Company was HK$225,276,410.50 comprising of 450,552,821 Shares of HK$0.50 each. As at the Latest Practicable Date, the Company had 9,075,000 Options in issue and outstanding. Save as disclosed in this paragraph (m) , the Company does not have any securities, warrants, options, derivatives convertible into the Shares.

(n) Since the last financial year ended 31 May 2005 and until the Latest Practicable Date, the Company has not issued or repurchased any Shares.

(o) Each of the Shares ranks pari passu in all respects, including dividends, voting rights and capital.

(p) Each of the EganaGoldpfeil Shares ranks pari passu in all respects, including dividends, voting rights and capital.

4. DEALING IN THE SECURITIES OF EGANAGOLDPFEIL AND THE COMPANY

During the Relevant Period:

(a) none of EganaGoldpfeil or parties acting in concert with it had dealt for value in the Shares and/or convertible securities, warrants, options or derivatives in respect of the Shares;

(b) except for the donation of Shares held by certain Common Directors, none of the Directors had dealt for value in any Shares and/or convertible securities, warrants, options or derivatives in respect of the Shares;

(c) except for the donation of Shares held by certain Common Directors, none of the Directors or the EganaGoldpfeil Directors had dealt for value in any Shares, EganaGoldpfeil Shares and/or convertible securities, warrants, options or derivatives in respect of the Shares and/or the EganaGoldpfeil Shares;

(d) no persons acting in concert with EganaGoldpfeil had dealt for value in any Shares, EganaGoldpfeil Shares and/or convertible securities, warrants, options or derivatives in respect of the Shares and/or the EganaGoldpfeil Shares;

(e) the Company had not dealt for value in the EganaGoldpfeil Shares and/or convertible securities, warrants, options or derivatives in respect of the EganaGoldpfeil Shares;

(f) none of the Company, the subsidiaries of the Company, any pension funds of the Company or of any of its subsidiaries or advisers to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code, had dealt for value in any Shares, EganaGoldpfeil Shares and/or convertible securities, warrants, options or derivatives in respect of the Shares and/or the EganaGoldpfeil Shares; and

(g) no fund managers (other than exempted fund managers) connected with the Company and who managed funds on a discretionary basis connected with the Company had dealt for value in any Shares, EganaGoldpfeil Shares and/or convertible securities, warrants, options or derivatives in respect of the Shares and/or the EganaGoldpfeil Shares.

5. LITIGATION

None of the Company nor any of its subsidiaries is engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

None of EganaGoldpfeil nor any of its subsidiaries is engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance is known to the EganaGoldpfeil Directors to be pending or threatened by or against EganaGoldpfeil or any of its subsidiaries.

6. MATERIAL CONTRACTS

Material contracts of the Company

The following contract was entered into by members of the Group within two years preceding the date of the Announcement and up to the Latest Practicable Date, and is or may be material:

- A letter agreement dated 24 May 2006 entered into between the Company and Merrill Lynch International ("ML") relating to the cancellation of ML's rights benefits or claims in the subscription rights attached to the convertible bonds issued by the Company pursuant to a subscription agreement dated 11 February 2004 at the consideration of HK$2.95 million.

Material contracts of EganaGoldpfeil

The following contracts were entered into by members of the EganaGoldpfeil Group (other than the Group) within two years preceding the date of the Announcement and up to the Latest Practicable Date, and are or may be material:

- A trademark agreement concluded on 3 March 2005 between Goldpfeil GmbH and EnBW Energie Baden-Wurttemberg AG, the holding company of Salamander Marken, regarding the acquisition of the Salamander trademarks rights on a global basis at the consideration of Eur 9 million (HK$92.4 million) (in German with English translation);

- A sale and purchase agreement concluded on 3 March 2005 between Ganymed 332. VV GmbH and (a) Dr. Hefermehl in the capacity as the Insolvency Administrator of Salamander Schuhhandelgesellschaft GmbH regarding the acquisition of the leather footwear products and assets from Salamander Germany at the consideration of Eur 11.5 million (HK$118 million) and (b) Dr. Hefermehl in the capacity as the Insolvency Administrator of Salamander Schuhe GmbH for the Salamander European operations through the acquisition of six subsidiaries including Salamander Austria, Salamander Czech, Salamander France, Salamander Hungary, Salamander Poland and Salamander Russia at the consideration of Eur 15.73 million (HK$161.4 million) (in German with English translation);

- An agreement dated 5 May 2005 entered into between Credit Suisse (Hong Kong) Limited ("CS") and EganaGoldpfeil regarding the cancellation of CS's rights benefits and claims in relation to (i) the subscription rights attached to the convertible bonds issued by EganaGoldpfeil pursuant to a subscription agreement dated 27 February 2003 and (ii) the issuance and delivery of convertible bonds together with the subscription rights attached thereto pursuant to a subscription agreement dated 15 January 2004 at the consideration of US$2,511,307 (HK$19,565,593);

- A 5-year loan agreement dated 3 June 2005 entered into between EganaGoldpfeil Europe (Holdings) GmbH and a syndicate of banks for a loan facility of Eur 60 million for (i) refinancing the acquisition of the Salamander trademarks, Salamander leather and footwear business in Europe (except Germany) and Salamander retail shops' operations in Germany and (ii) general working capital requirements; and

- A 5-year loan agreement dated 8 February 2006 entered into between EganaGoldpfeil Europe (Holdings) GmbH and a syndicate of banks for a loan facility of Eur 20 million for the purposes of (i) refinancing the acquisition of the Salamander trademarks, Salamander leather and footwear business in Europe (except Germany) and Salamander retail shops' operations in Germany and (ii) financing general business capital requirements.

7 EXPERTS

The following are the qualifications of each of the experts who have been named in this document or given their opinion or advice which are contained in this document:

Name	Qualification
BNP Paribas Peregrine	a corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Somerley	a corporation licensed to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO

8. CONSENT

BNP Paribas Peregrine and Somerley have given and have not withdrawn their respective written consents to the issue of this document with the inclusion in this document of the text of their respective letters and references to their names in the form and context in which they are included.

9. COSTS OF THE SCHEME OF ARRANGEMENT

In the event that the Scheme of Arrangement becomes effective, the costs of the Scheme of Arrangement will be borne by EganaGoldpfeil. The costs of the Scheme of Arrangement and of its implementation are expected to amount to approximately HK$10 million. These primarily consist of fees for financial advisers, legal advisers, accounting, printing and other related charges.

In the event that the Scheme of Arrangement is not approved at the relevant Shareholders' meeting(s) or does not become unconditional, all the expenses incurred by the Company in connection with the Scheme of Arrangement shall be borne by EganaGoldpfeil.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection from 9:30 a.m. to 5:30 p.m., Monday to Friday at (i) the office of Herbert Smith, legal adviser to the Company, at 23rd Floor, Gloucester Tower, 11 Pedder Street, Central, Hong Kong; (ii) the website of the Company at *www.egana.com*; and (iii) the website of SFC at *www.sfc.hk* from the date this document is published until the Effective Date or the date on which the Scheme of Arrangement lapses, whichever is earlier:

(a) the memorandum and articles of association of EganaGoldpfeil;

(b) the memorandum and articles of association of the Company;

(c) the annual report containing the audited consolidated financial statements of the Company for the two years ended 31 May 2004 and 2005;

(d) the annual report containing the audited consolidated financial statements of EganaGoldpfeil for the two years ended 31 May 2004 and 2005;

(e) the letter from the Board, the text of which is set out on pages 10 to 19;

(f) the letter of recommendation of the Independent Board Committee, the text of which is set out on pages 20 to 21;

(g) the letter of advice from Somerley, the text of which is set out on pages 22 to 63;

(h) the written consents referred to in the paragraph headed "Consent" in Appendix III to this document; and

(i) material contracts set out on pages 272 to 273.

11. MISCELLANEOUS

(a) None of the Directors will be given any benefit as compensation for loss of office or otherwise in connection with the Scheme of Arrangement.

(b) There is no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the Scheme of Arrangement or otherwise connected with the Scheme of Arrangement.

(c) There is no agreement or arrangement or understanding (including any compensation arrangement) between EganaGoldpfeil, or any person acting in concert with them (on the one part) and any of the Directors, recent Directors, Shareholders or recent Shareholders of the Company (on the other part) having any connection with or dependence upon the Scheme of Arrangement.

(d) EganaGoldpfeil has no intention to transfer, charge or pledge any securities in the Company acquired pursuant to the Scheme of Arrangement to any other person.

(e) The emoluments of the directors of EganaGoldpfeil will not be affected by the Scheme of Arrangement or any other associated transaction.

(f) Settlement of the consideration to which any Shareholder and/or Optionholder is entitled under the Cash Alternative and/or the Option Payment will be implemented in full in accordance with the terms of the Scheme of Arrangement and/or the Option Offer, as the case may be, without regard to any lien, right of set-off, counterclaim or other analogous right to which EganaGoldpfeil may otherwise be, or claim to be, entitled against such Shareholder and/or Optionholder.

(g) There is no agreement or arrangement to which EganaGoldpfeil is party which relates to the circumstances in which it may or may not invoke or seek to invoke a condition to the Proposal and the Option Offer.

(h) EganaGoldpfeil was incorporated on 7 December 1990 under the laws of Cayman Islands. The registered office of EganaGoldpfeil is situated at P.O. Box 1787, 2nd Floor, One Capital Place, George Town, Grand Cayman, Cayman Islands, British West Indies. As at the Latest Practicable Date, the EganaGoldpfeil Board comprises Messrs. Hans-Joerg SEEBERGER, Peter Ka Yue LEE, Michael Richard POIX, Ho Yin CHIK and David Wai Kwong WONG as executive directors, and Professor Udo GLITTENBERG, Dr. Goetz Reiner WESTERMEYER and Mr. Andy Yick Man NG as independent non-executive directors. The ultimate controlling shareholder of EganaGoldpfeil is Mr. Seeberger whose address is at Block C6, 12th Floor, Hong Kong Industrial Centre, 489-491 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong.

(i) As at the Latest Practicable Date, the authorised share capital of EganaGoldpfeil was HK$2,000,000,000 comprising 2,000,000,000 Shares of HK$1.00 each. The issued share capital of EganaGoldpfeil was HK$1,285,810,051 comprising of 1,285,810,051 EganaGoldpfeil Shares of HK$1.00 each. EganaGoldpfeil had in issue and outstanding options which entitle the optionholders to subscribe for a total of 44,819,200 EganaGoldpfeil Shares. Save as disclosed in this paragraph, EganaGoldpfeil does not have any securities, warrants, options, derivatives convertible into EganaGoldpfeil Shares.

(j) Since the last financial year ended 31 May 2005 and until the Latest Practicable Date, EganaGoldpfeil has not issued or repurchased any shares.

(k) The EganaGoldpfeil Shares to be issued under the Share Alternative will rank *pari passu* in all respects, including dividends, voting rights and capital, with existing issued EganaGoldpfeil Shares.

(l) EganaGoldpfeil had not undergone any re-organisation of capital during the two financial years preceding the date of the Announcement.

(m) The Secretary of the Company is Mr. David Wai Kwong WONG who is a Certified Public Accountant and a fellow member of the Association of Chartered Certified Accountants.

(n) The Qualified Accountant of the Company is Mr. Kong Hoi KOO who is Certified Public Accountant and a member of CPA Australia.

(o) The registered office of the Company is situated at P.O. Box 1787, 2nd Floor, One Capital Place, George Town, Grand Cayman, Cayman Islands, British West Indies.

(p) The principal place of business of EganaGoldpfeil is situated at Block C, 11/F., Hong Kong Industrial Centre, 489-491 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong. The principal place of business of the Company is situated at Block C6, 12/F., Hong Kong Industrial Centre, 489-491 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong.

(q) The share registrar and transfer office of the Company is Secretaries Limited, which is situated at 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong.

(r) The principal place of business of BNP Paribas Peregrine is at 63th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

(s) The principal place of business of Somerley is at Suite 2201, 22nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

(t) As at the Latest Practicable Date, there was no material contract entered into by EganaGoldpfeil in which any of the Directors had a material personal interest.

(u) As at the Latest Practicable Date, none of the Directors has entered into any service contract with the Company or any of its subsidiaries or associated companies which has more than 12 months to run, or which has been entered into or amended within 6 months before the commencement of the Offer Period, or which is a continuous contract with a notice period of 12 months or more.

(v) The English language text of this document shall prevail over the Chinese language text.

(w) This document is displayed at the Company's website at *www.egana.com*.

IN THE GRAND COURT OF THE CAYMAN ISLANDS
CAUSE NO: 333 OF 2006

IN THE MATTER OF
EGANA JEWELLERY & PEARLS LIMITED
AND IN THE MATTER OF
SECTION 86 OF THE COMPANIES LAW, CAP.22 (LAW 3 OF 1961) AS CONSOLIDATED AND REVISED OF THE CAYMAN ISLANDS

SCHEME OF ARRANGEMENT
between
EGANA JEWELLERY & PEARLS LIMITED
and
THE HOLDERS OF SCHEME SHARES
(as hereinafter defined)

PRELIMINARY

(A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall have the meanings respectively set opposite them:

"acting in concert"	has the meaning ascribed thereto in the Takeovers Code
"Cash Alternative"	HK$1.80 per Scheme Share in cash under the Scheme of Arrangement
"Companies Law"	Companies Law, Cap.22 (Law 3 of 1961) of the Cayman Islands
"Company"	Egana Jewellery & Pearls Limited, a company incorporated in the Cayman Islands with limited liability, the securities of which are listed on the Stock Exchange
"Court"	the Grand Court of the Cayman Islands

"Effective Date"	23 October 2006 being the date on which the Scheme of Arrangement, if sanctioned by the Court, becomes effective in accordance with the Companies Law
"EganaGoldpfeil"	EganaGoldpfeil (Holdings) Limited, a company incorporated in the Cayman Islands with limited liability and the controlling shareholder of the Company, the securities of which are also listed on the Stock Exchange
"EganaGoldpfeil Group"	EganaGoldpfeil and its subsidiaries including the Group
"EganaGoldpfeil Shares"	Shares of HK$1.00 each in the capital of EganaGoldpfeil
"Group"	the Company and its subsidiaries
"holder(s)"	a registered holder and includes a person entitled by transmission to be registered as such and joint holders
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Latest Practicable Date"	15 August 2006 being the latest practicable date prior to the printing of this document for ascertaining certain information contained herein
"Record Date"	17 October 2006, being the date on which the entitlements of the Shareholders under the Scheme of Arrangement are determined
"Record Time"	4:00 p.m. (Hong Kong time) on the Record Date
"Register"	the register of members of the Company
"Scheme of Arrangement"	a scheme of arrangement between the Company and the Scheme Shareholders pursuant to Section 86 of the Companies Law
"Scheme Shareholders"	Shareholders of the Company other than the EganaGoldpfeil Group
"Scheme Shares"	Shares held by the Scheme Shareholders
"Share(s)"	shares of HK$0.50 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Share Alternative"	1 EganaGoldpfeil Share per 1.5 Scheme Shares
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers

(B) The Company was incorporated as an exempted company on 25 April 1997 in the Cayman Islands under the Companies Law.

(C) The authorised share capital of the Company as at the Latest Practicable Date was HK$250,000,000 divided into 500,000,000 Shares of HK$0.50 each, 450,552,821 of which have been issued and are fully paid and the remainder are unissued.

(D) The primary purpose of the Scheme of Arrangement is to privatise the Company by cancelling and extinguishing on the Effective Date, all of the Scheme Shares such that the Company shall, thereafter, be wholly owned by EganaGoldpfeil.

(E) On the Latest Practicable Date, an aggregate of 246,121,144 Shares representing 54.63% of the Shares in issue were beneficially owned by EganaGoldpfeil and parties acting in concert with it and Scheme Shareholders held an aggregate of 204,431,677 Scheme Shares representing 45.37% of the Shares in issue.

EganaGoldpfeil and parties acting in concert has undertaken that in relation to such Shares in which each of them is beneficially interested, all such Shares will remain so registered and beneficially interested until the date on which the Scheme of Arrangement becomes effective, is withdrawn or lapses and will procure that such Shares will not be represented or voted at the meeting convened by direction of the Court for the purpose of considering and, if thought fit, approving the Scheme of Arrangement.

(F) The Scheme of Arrangement involves the cancellation and extinguishment of all of the Scheme Shares on the Effective Date and, in consideration and exchange therefore, the Scheme Shareholders may elect to receive the Cash Alternative, the Share Alternative, or a combination of both.

(G) EganaGoldpfeil has agreed to appear by Counsel at the hearing of the petition to sanction the Scheme of Arrangement and to undertake to the Court to be bound thereby and will execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by each of them for the purpose of giving effect to the Scheme of Arrangement, including without limitation, satisfying its obligation under the Scheme of Arrangement.

THE SCHEME OF ARRANGEMENT

PART I

Cancellation of the Scheme Shares

1. On the Effective Date:

(a) (i) the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares; and

(ii) the Company shall apply the amount of credit arising in its books of account as a result of the reduction of its issued share capital referred to in paragraph (a)(i) above to a distributable reserve of the Company; and

(b) in consideration of the cancellation and extinguishment of their Scheme Shares, the Scheme Shareholders shall receive either HK$1.80 in cash (subject to the limit on the total cash available under the Scheme of Arrangement, that is HK$130 million) for every one (1) Scheme Share cancelled and extinguished as aforesaid or one (1) EganaGoldpfeil Share for every 1.5 Scheme Shares, or a combination of both.

PART II

Conditions

2. The Scheme of Arrangement is conditional upon the capital reduction referred to in Clause 1(a) above becoming effective.

PART III

General

3. As from the Effective Date, any instruments of transfer relating to and all certificates representing, the Scheme Shares shall cease to have effect as documents of title and every Scheme Shareholder shall be bound on the request of the Company to deliver up to the Company the certificates relating to the Scheme Shares.

4. (a) Not later than ten days after the Effective Date, EganaGoldpfeil shall send or cause to be sent to the Scheme Shareholders (as appearing in the Register at the Record Date), cheques or share certificates in respect of the sums payable to such Scheme Shareholders pursuant to Clause 1(b) of the Scheme of Arrangement.

(b) Unless indicated otherwise in writing to the share registrar of the Company in Hong Kong, Secretaries Limited, all such cheques and/or share certificates shall be sent by post in pre-paid envelopes addressed to such Scheme Shareholders at their respective addresses as appearing on the Register at the Record Time, or, in the case of joint Scheme Shareholders, at the address as appearing on the Register at the Record Time of the joint Scheme Shareholder whose name then stands first in the Register in respect of the relevant joint holding.

(c) Cheques and/or share certificates shall be posted at the risk of the addressees and neither EganaGoldpfeil nor the Company shall be responsible for any loss or delay in transmission.

(d) Each such cheque and/or share certificate shall be payable to the order of the person to whom, in accordance with the provisions of paragraph (b) of this Clause 4, the envelope containing the same is addressed and the encashment of any such cheques shall be a good discharge to EganaGoldpfeil for the monies represented thereby.

(e) On or after the day being six calendar months after the posting of the cheques and/or share certificates pursuant to paragraph (b) of this Clause 4, EganaGoldpfeil shall have the right to cancel or countermand payment of any such cheque and/or share certificate which has not been cashed or has been returned uncashed or not registered and shall place all monies and/or share certificates represented thereby in a deposit account in the Company's name with a licensed bank in Hong Kong selected by the Company. The Company shall hold such monies and/or share certificates on trust for those entitled under the terms of the Scheme of Arrangement until the expiration of six years from the effective date of the Scheme of Arrangement and shall prior to such date make payments thereout of the sums payable pursuant to Clause 1(b) of the Scheme of Arrangement to persons who satisfy the Company that they are respectively entitled thereto and the cheques and/or share certificates referred to in paragraph (b) of this Clause 4 of which they are payees have not been cashed or registered. Any payments made by the Company hereunder shall include any interest accrued on the sums to which the respective persons are entitled pursuant to Clause 1(b) of the Scheme of Arrangement, calculated at the annual rate prevailing from time to time at the licensed bank in which the monies are deposited, subject, if applicable, to the deduction of any interest or withholding tax or any other deduction required by law. The Company shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled and a certificate of the Company to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.

(f) On the expiration of six years from the Effective Date, EganaGoldpfeil shall be released from any further obligation to make any payments under the Scheme of Arrangement and the Company shall transfer to EganaGoldpfeil the balance (if any), of the sums standing to the credit of the deposit account referred to in paragraph (e) of this Clause 4 including accrued interest subject, if applicable, to the deduction of interest or any withholding tax or other tax or any other deductions required by law and subject to the deduction of any expenses.

(g) Paragraph (f) of this Clause 4 shall take effect subject to any prohibition or condition imposed by law.

5. All mandates or relevant instructions to the Company in force at the Record Time relating to any of the Scheme Shares shall cease to be valid as effective mandates or instructions.

6. Subject to Clause 2, the Scheme of Arrangement shall become effective as soon as a copy of the Order of the Court sanctioning the Scheme of Arrangement under Section 86 of the Companies Law shall have been duly registered by the Registrar of Companies in the Cayman Islands.

7. Unless the Scheme of Arrangement shall have become effective on or before 23 October 2006 or such later date, if any, as EganaGoldpfeil and the Company may agree or as the Court on application of EganaGoldpfeil or the Company may allow, the Scheme of Arrangement shall lapse.

8. The Company may consent for and on behalf of all concerned to any modification of or addition to the Scheme of Arrangement or to any condition which the Court may think fit to approve or impose.

9. All costs, charges and expenses of and incidental to the Scheme of Arrangement and the costs of carrying the Scheme of Arrangement into effect will be borne by EganaGoldpfeil.

Date 18 August 2006

JEWELLERY & PEARLS LIMITED

(聯洲珠寶有限公司)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 926)

IN THE GRAND COURT OF THE CAYMAN ISLANDS
CAUSE NO. 333 OF 2006

IN THE MATTER OF
EGANA JEWELLERY & PEARLS LIMITED
and
IN THE MATTER OF
THE COMPANIES LAW, CAP.22 (LAW 3 OF 1961)
AS CONSOLIDATED AND REVISED OF THE CAYMAN ISLANDS

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that, by an order dated 14 August 2006 (the "Order") made in the above matter, the Court has directed a meeting (the "Meeting") to be convened of the Scheme Shareholders (as defined in the Scheme of Arrangement hereinafter mentioned) for the purpose of considering and, if thought fit, approving, with or without modifications, a scheme of arrangement (the "Scheme of Arrangement") proposed to be made between the Company and the Scheme Shareholders and that the Meeting will be held at Ching Room, 4/F, Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Kowloon, Hong Kong on Monday, 11 September 2006 at 10:00 a.m. (Hong Kong Time) at which place and time all such Scheme Shareholders are requested to attend.

A copy of the Scheme of Arrangement and a copy of an explanatory memorandum explaining the effect of the Scheme of Arrangement are incorporated in the composite document of which this Notice forms part. A copy of the said composite document can also be obtained by the Scheme Shareholders from the Company's share registrar in Hong Kong, Secretaries Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

The Scheme Shareholders may vote in person at the Meeting or they may appoint one or more proxies, whether a member of the Company or not, to attend and vote in their stead. A pink form of proxy for use at the Meeting is enclosed with the composite document containing the Scheme of Arrangement dated 18 August 2006 despatched to members of the Company on 18 August 2006.

In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.

It is requested that forms appointing proxies be deposited at the Company's principal place of business in Hong Kong at Block C6, 12/F, Hong Kong Industrial Centre, 489-491 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong not later than 48 hours before the time appointed for the Meeting, but if forms are not so lodged they may be handed to the chairman of the Meeting, who has absolute discretion whether or not to accept them, at the Meeting pursuant to the Order.

By the Order, the Court has appointed Mr. Peter Ka Yue Lee, a director of the Company, or failing him, Mr. Ho Yin Chik, also a director of the Company, or failing him, any other person who is a director of the Company as at the date of the Order, to act as the chairman of the Meeting and has directed the chairman of the Meeting to report the results thereof to the Court.

The Scheme of Arrangement will be subject to a subsequent application seeking the sanction of the Court.

By order of the Court
Egana Jewellery & Pearls Limited

Dated 18 August 2006

Registered Office
P.O. Box 1787, Second Floor
One Capital Place
George Town
Grand Cayman
Cayman Islands
British West Indies

Principal Place of Business in Hong Kong
Block C6, 12th Floor
Hong Kong Industrial Centre
489-491 Castle Peak Road
Cheung Sha Wan, Kowloon
Hong Kong

EGANA JEWELLERY & PEARLS LIMITED

(聯洲珠寶有限公司)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 926)

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of Egana Jewellery & Pearls Limited (the "Company") will be held at Ching Room, 4/F, Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Kowloon, Hong Kong on Monday, 11 September 2006 at 10:30 a.m. (Hong Kong time) (or so soon thereafter as the meeting of the Scheme Shareholders (as defined in the Scheme of Arrangement hereinafter mentioned) convened by direction of the Grand Court of the Cayman Islands for the same place and day shall have been concluded or adjourned), for the purpose of considering and, if thought fit, passing the following resolution as a Special Resolution:

SPECIAL RESOLUTION

"**THAT:**

(A) for the purpose of giving effect to the Scheme of Arrangement dated 18 August 2006 (the "Scheme of Arrangement") between the Company and the Scheme Shareholders (as defined in the Scheme of Arrangement), on the Effective Date (as defined in the Scheme of Arrangement):

(i) the cancellation and extinguishment of the Scheme Shares (as defined in the Scheme of Arrangement) in consideration of which holders of the Scheme Shares will receive one share of HK$1.00 each in the capital of EganaGoldpfeil (Holdings) Limited per 1.5 Scheme Share or HK$1.80 in cash (subject to the limit on the total cash available under the Scheme of Arrangement, that is HK$130 million) for each Scheme Share or a combination of both; and

(ii) the credit arising in the books of account of the Company as a result of the reduction of its issued share capital resulting from the cancellation and extinguishment of the Scheme Shares referred to in paragraph A(i) above being credited to a distributable reserve of the Company.

(collectively, the "Capital Reduction"); and

(B) the directors of the Company be and are hereby authorised to do all acts and things considered by them to be necessary or desirable in connection with the implementation of the Scheme of Arrangement and the Capital Reduction, including (without limitation) giving consent to any modification of, or addition to, the Scheme of Arrangement and the Capital Reduction, which the Grand Court of the Cayman Islands may see fit to impose."

By Order of the Board
Egana Jewellery & Pearls Limited
David Wai Kwong WONG
Company Secretary

Dated 18 August 2006

Registered office
P.O. Box 1787, Second Floor
One Capital Place
George Town
Grand Cayman, Cayman Islands
British West Indies

Principal Place of Business in Hong Kong
Block C6, 12th Floor
Hong Kong Industrial Centre
489-491 Castle Peak Road
Cheung Sha Wan, Kowloon
Hong Kong

Notes:

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company, but must attend the Meeting in person to represent him.

2. A white form of proxy for use at the Meeting is enclosed with the composite document containing the Scheme of Arrangement dated 18 August 2006 despatched to members of the Company on 18 August 2006.

3. In order to be valid, the white form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy thereof, must be deposited with the Company at its principal place of business in Hong Kong at Block C6, 12th Floor, Hong Kong Industrial Centre, 489-491 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong not less than 48 hours before the time for holding the Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude a member from attending the Meeting and voting in person if he so wishes. In the event that a member attends and votes at the Meeting after having lodged his form of proxy, his form of proxy will be deemed to have been revoked.

4. In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.

5. At the Meeting, the chairman of the Meeting will exercise his power under article 80 of the articles of association of the Company to put the above resolution to vote by way of a poll.

6. The register of members of the Company will be closed from Friday, 8 September 2006 to Monday, 11 September 2006 (both days inclusive) and from Tuesday, 17 October 2006 to Monday, 23 October 2006 (both days inclusive) during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Secretaries Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Thursday, 7 September 2006.