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**If you have sold or transferred** all your shares in EganaGoldpfeil (Holdings) Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee, or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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# EGANA GOLDPFEIL

(HOLDINGS) LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

(Stock code: 48)

## **INCREASE IN AUTHORISED SHARE CAPITAL, DEBT RESTRUCTURING, ISSUE OF NEW SHARES AND CONVERTIBLE BONDS AND APPLICATION FOR WHITEWASH WAIVER AND SPECIAL DEAL REPAYMENT**

**Financial adviser to EganaGoldpfeil (Holdings) Limited**



**Independent financial adviser to the independent board committee  
and independent shareholders of EganaGoldpfeil (Holdings) Limited**



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A letter from the independent board committee of EganaGoldpfeil (Holdings) Limited is set out on page 52 of this circular.

A letter from Access Capital Limited, the independent financial adviser, containing its advice to the independent board committee and the independent shareholders of EganaGoldpfeil (Holdings) Limited is set out on pages 53 to 73 of this circular.

A notice convening an extraordinary general meeting of EganaGoldpfeil (Holdings) Limited to be held at Gloucester Room II, 3/F, The Excelsior, Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong on 29 July 2008 at 11:30 a.m. is set out on pages EGM-1 to EGM-6 of this circular. If you are not able to attend the extraordinary general meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the principal place of business of EganaGoldpfeil (Holdings) Limited in Hong Kong at Block C, 11th Floor, Hong Kong Industrial Centre, 489-491 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong as soon as possible and in any event not later than forty-eight (48) hours before the time appointed for holding the extraordinary general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting or any adjournment thereof should you so wish.

30 June 2008

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## DEFINITIONS

*In this circular, unless the context otherwise requires, the following terms have the meanings as follows:*

“Access Capital”	Access Capital Limited, the independent financial adviser to the Independent Egana Board Committee and the Independent Egana Shareholders as regards the Restructuring Proposal, the Whitewash Waiver and the Special Deal Repayment, a licensed corporation under the SFO to carry on types 1, 4, 6 and 9 regulated activities
“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“Announcement”	the announcement jointly made by Egana and Lifestyle dated 13 June 2008 in relation to, among other things, the Restructuring Proposal and the Whitewash Waiver
“associates”	has the meaning ascribed to it under the Listing Rules
“BDO”	BDO McCabe Lo Limited
“Bond Subscriber”	Treasure Focus Ltd., a company incorporated in British Virgin Islands with limited liability and wholly-owned by Lifestyle
“Bridging Loan”	HK\$300 million bridging loan provided by the Lifestyle Group pursuant to a credit agreement dated 23 September 2007 entered into between Egana and Billion Empire Limited, a wholly-owned subsidiary of Lifestyle, and as supplemented by agreements dated 25 January 2008, 25 February 2008, 31 March 2008, 7 May 2008 and 16 June 2008
“Capital Increase”	the proposed increase in the authorised share capital of Egana from HK\$20,000,000 to HK\$500,000,000 by the creation of an additional 48,000,000,000 Egana New Shares
“Capital Reduction”	capital reduction which involves the par value of each Egana Existing Share in issue being reduced from HK\$1 to HK\$0.01 as approved by Egana Shareholders on 28 March 2008, and by the Cayman Islands Court on 6 June 2008
“CBRE”	CB Richard Ellis Limited, an independent firm of property valuers
“CCASS”	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
“Completion”	completion of the Restructuring Proposal

## DEFINITIONS

“Concert Parties”	parties acting in concert within the meaning of the Takeovers Code
“connected persons”	has the meaning ascribed thereto under the Listing Rules
“Conversion Price”	initial conversion price of HK\$0.05 per Egana Share, subject to anti-dilution adjustments pursuant to the terms of the Lifestyle Convertible Bonds and the Participating Creditors’ Convertible Bonds
“Conversion Share(s)”	the Egana Share(s) to be allotted and issued by Egana upon exercise of conversion rights attached to the Lifestyle Convertible Bonds and the Participating Creditors’ Convertible Bonds
“Coordinator(s)”	coordinators appointed by the Participating Creditors as their agents in relation to the administration of the Restructuring Proposal, being CITIC Ka Wah Bank Limited as Asian coordinator and Dresdner Bank AG as European coordinator
“Cut-Off Date”	1 August 2007 or, in the case of the derivatives, the relevant close out date
“Debt Restructuring Agreement”	debt restructuring agreement entered into among Lifestyle, Egana (on its own behalf and on behalf of the other Debtors named therein), the Participating Creditors, CITIC Ka Wah Bank Limited and Dresdner Bank AG in respect of the debt restructuring of the Egana Group and effective from 26 May 2008
“Debtors”	Egana and its subsidiaries named in the Debt Restructuring Agreement as debtors under certain loan facilities to the Egana Group
“Delinquent Debts”	being doubtful receivables with potential but uncertain recoverability in a total outstanding principal amount of approximately HK\$2.6 billion as at 16 October 2007
“Delinquent Debts Agreement”	delinquent debts agreement to be entered into among the Coordinators, CITIC Ka Wah Bank Limited as paying agent and Egana on its own behalf and on behalf of the Egana Group in respect of the Delinquent Debts
“Effective Date”	date on which the Coordinators give notice to the Participating Creditors and Egana that all conditions precedent to completion of the Debt Restructuring Agreement have been satisfied or waived (as the case may be)

## DEFINITIONS

“Egana”	EganaGoldpfeil (Holdings) Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange
“Egana Board”	board of the Egana Directors
“Egana Director(s)”	director(s) of Egana
“Egana EGM”	extraordinary general meeting of Egana to be held for the purpose of considering, and if thought fit, passing the relevant resolution(s) required for the implementation of the Restructuring Proposal, the Whitewash Waiver, the Special Deal Repayment and the Capital Increase
“Egana Existing Share(s)”	existing ordinary share(s) of HK\$1 each in the capital of Egana prior to the Capital Reduction becoming effective
“Egana Group”	Egana and its subsidiaries
“Egana New Share(s)”	ordinary share(s) of HK\$0.01 each in the capital of Egana upon the Capital Reduction becoming effective
“Egana Share(s)”	the Egana Existing Share(s) or, as the case may be, the Egana New Share(s)
“Egana Shareholder(s)”	holder(s) of the Egana Shares
“Equity Subscriber”	Win Promise Limited, a company incorporated in British Virgin Islands with limited liability and wholly-owned by Lifestyle
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Fully Secured Creditors”	members of the Non-Participating Creditors and are fully secured with an aggregate net indebtedness of approximately HK\$104.7 million owed by the Egana Group to them as at the Cut-Off Date
“HIBOR”	Hong Kong Interbank Offered Rate shown on the Reuters monitor screen as being the rate per annum at which Hong Kong dollar deposits are offered for a period equal or comparable to interest period at or about 11:00 a.m. (Hong Kong time) on the first day of the applicable interest period

## DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Egana Board Committee”	a committee of the Egana Board comprising Professor Udo GLITTENBERG and Dr. Goetz Reiner WESTERMEYER (both being independent non-executive Egana Directors) who are not interested in the Restructuring Proposal or the Whitewash Waiver or the Special Deal Repayment
“Independent Egana Shareholders”	Egana Shareholders other than (i) Lifestyle, its Concert Parties and their respective associates; and (ii) together with those who are interested in, or involved in, the Restructuring Proposal (including (a) Peninsula International Limited; (b) all executive Egana Directors; and (c) the Special Deal Participating Creditors whose loans to the Egana Group are to be repaid, in whole or in part, by the funds from the Restructuring Proposal)
“Issuer”	Horizon Asset Holdings Ltd., a company incorporated in British Virgin Islands with limited liability, issuer of the Lifestyle Convertible Bonds and the Participating Creditors’ Convertible Bonds and a wholly-owned subsidiary of Egana
“Joint Asset”	Joint Asset International Limited, a wholly-owned subsidiary of Peninsula International Limited
“Last Trading Day”	Tuesday, 11 September 2007, being the last trading day prior to the suspension of trading in Egana Shares on the Stock Exchange at 9:30 a.m. on Wednesday, 12 September 2007
“Latest Practicable Date”	27 June 2008, being the latest practicable date for ascertaining certain information for inclusion in this circular
“Lifestyle”	Lifestyle International Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange
“Lifestyle Convertible Bonds”	convertible bonds to be issued to the Bond Subscriber as constituted by an instrument to be made by Egana and the Issuer in accordance with the provisions of the Subscription Agreement
“Lifestyle Group”	Lifestyle and its subsidiaries
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange

## DEFINITIONS

“Maturity Date”	maturity date of the Lifestyle Convertible Bonds and the Participating Creditors’ Convertible Bonds being the date immediately following the expiration of 2 years and 14 days from the Effective Date
“New Guarantees”	the Participating Creditors’ Convertible Bonds Guarantee and the Participating Creditors’ Restructured Debt Guarantee
“New Guarantors”	selected major subsidiaries of Egana which will grant certain guarantees in respect of the Participating Creditors’ Restructured Debt, the Participating Creditors’ Convertible Bonds and the Lifestyle Convertible Bonds
“Non-Participating Creditors”	the Egana Group’s bank creditors who do not participate in the debt restructuring contemplated under the Restructuring Proposal with an aggregate net indebtedness of approximately HK\$152.9 million owed by the Egana Group to them (including the Fully Secured Creditors) as at the Cut-Off Date
“Participating Creditors”	the Egana Group’s bank creditors who participate in the debt restructuring contemplated under the Restructuring Proposal with an aggregate indebtedness and net indebtedness of approximately HK\$3.7 billion and HK\$3.58 billion respectively owed by the Egana Group to them as at the Cut-Off Date
“Participating Creditors’ Convertible Bonds”	HK\$80,000,000 zero coupon guaranteed convertible bonds due 2010 (as constituted by a trust deed) to be issued by the Issuer to the Participating Creditors in accordance with the provisions of the Participating Creditors’ CB Subscription Agreement
“Participating Creditors’ Convertible Bonds Guarantee”	guarantee to be executed by the New Guarantors in favour of the security agent and trustee under the Participating Creditors’ Convertible Bonds for the Participating Creditors as security for the Participating Creditors’ Convertible Bonds
“Participating Creditors’ CB Subscription Agreement”	agreement to be entered into among the Issuer, Egana, CITIC Ka Wah Bank Limited and the Participating Creditors in relation to the subscription of the Participating Creditors’ Convertible Bonds
“Participating Creditors’ Debt”	aggregate principal amount owing by the Debtors to the Participating Creditors as at the Cut-Off Date in the total amount of approximately HK\$3.7 billion together with all interest, commission, fees and other amounts payable thereon

## DEFINITIONS

“Participating Creditors’ Restructured Debt”	aggregate amount to be paid by the Debtors to the Participating Creditors in accordance with the Debt Restructuring Agreement, being an amount equal to the aggregate of HK\$1,920 million (less the amount payable to the Fully Secured Creditors as contemplated under the Debt Restructuring Agreement) and the interest payable thereon
“Participating Creditors’ Restructured Debt Guarantee”	guarantee to be executed by the New Guarantors in favour of the security agent for the Participating Creditors as security for the payment of the specified amounts under the Debt Restructuring Agreement and certain existing loan documents up to an amount equal to the Participating Creditors’ Restructured Debt
“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, Macao Special Administrative Region of the PRC and Taiwan
“Relevant Period”	the period between 13 December 2007 (being the date falling six months prior to the date of the Announcement) and the Latest Practicable Date
“Restructuring Opinion”	a restructuring opinion confirming the Egana Group’s ability to achieve the Restructuring Plan to be prepared by KPMG or the independent financial adviser appointed by the Participating Creditors in form and substance acceptable to the Coordinators acting on the instructions of the Participating Creditors
“Restructuring Plan”	a plan setting out the analyses conducted and measures approved, planned and/or implemented by and under the responsibility of the management of the Egana Group in connection with the current restructuring process to enable the Egana Group (or a substantial part of it) to continue on a going-concern basis for at least two years as the same may be amended from time to time during the restructuring period commencing on the Effective Date and ending on the date on which the Debt Restructuring Agreement terminates under any provision of the Debt Restructuring Agreement, provided that any proposed amendment that could have a material adverse effect on the Egana Group will be promptly notified to the Coordinators and will require the approval of the Coordinators acting on the instructions of the Participating Creditors
“Restructuring Proposal”	debt restructuring proposal of the Egana Group involving, among other things, the Subscription Agreement, the Debt Restructuring Agreement, the Participating Creditors’ CB Subscription Agreement, the Delinquent Debts Agreement and transactions (including the entering into of other agreements) contemplated thereunder



## DEFINITIONS

“SFC”	the Securities and Futures Commission of Hong Kong
“Special Deal Consent”	the consent to be given by the Executive in respect of the Special Deal Repayment
“Special Deal Participating Creditors”	the Participating Creditors that have beneficial interests in Egana Shares
“Special Deal Repayment”	repayment of loan(s) to the Special Deal Participating Creditors under the Restructuring Proposal
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	subscription by the Equity Subscriber and the Bond Subscriber of the Subscription Shares and the Lifestyle Convertible Bonds respectively pursuant to the Subscription Agreement
“Subscription Agreement”	agreement to be entered into among Lifestyle, the Equity Subscriber, the Bond Subscriber, Egana and the Issuer in relation to the Subscription
“Subscription Shares”	4,342,642,652 new Egana Shares to be allotted and issued to the Equity Subscriber pursuant to the Subscription Agreement
“Takeovers Code”	the Code on Takeovers and Mergers
“Whitewash Waiver”	a waiver by the Executive pursuant to Note 1 to the Notes on dispensations from Rule 26 of the Takeovers Code from the obligation of Lifestyle and its Concert Parties to make a mandatory general offer for all the Egana Shares not already or agreed to be acquired by them as a result of the subscription of the Subscription Shares and the allotment and issue of the Conversion Shares upon the exercise of the conversion rights attaching to the Lifestyle Convertible Bonds
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

LETTER FROM THE EGANA BOARD

# EGANA GOLDPFEIL

(HOLDINGS) LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

(Stock code: 48)

*Executive Directors:*

Peter Ka Yue LEE (*Deputy Chairman*)

Michael Richard POIX (*Chief Executive Officer*)

Wolfgang Heinz PFEIFER

Juergen Ludwig HOLZSCHUH

*Independent Non-Executive Directors:*

Dr. Goetz Reiner WESTERMEYER

Professor Udo GLITTENBERG

*Registered office:*

One Capital Place,

P. O. Box 897

George Town

Grand Cayman

KY1-1103

Cayman Islands

British West Indies

*Principal place of business*

*in Hong Kong:*

Block C, 11th Floor

Hong Kong Industrial Centre

489-491 Castle Peak Road

Cheung Sha Wan

Kowloon, Hong Kong

30 June 2008

*To the Egana Shareholders*

Dear Sir or Madam,

**INCREASE IN AUTHORISED SHARE CAPITAL,  
DEBT RESTRUCTURING,  
ISSUE OF NEW SHARES AND CONVERTIBLE BONDS  
AND  
APPLICATION FOR WHITEWASH WAIVER AND  
SPECIAL DEAL REPAYMENT**

**INTRODUCTION**

On 13 June 2008, the Egana Board announced that Lifestyle, Egana and the Participating Creditors have finalised the terms of the Restructuring Proposal and entered into a conditional Debt Restructuring Agreement with effect from 26 May 2008 providing for the following:

- (a) three cash re-payments from the Debtors to the Participating Creditors and the Fully Secured Creditors in the aggregate amount of HK\$1,920.0 million, each instalment being in the amount of HK\$640.0 million with the first instalment to be paid to the Participating Creditors 14 days after the Effective Date and the last instalment being due 10 days after the second anniversary of Effective Date. The first instalment is to be used to pay off all of the debt owed to the Fully Secured Creditors and the remainder of such instalment and the second and third instalments are to be applied to pay the debts owing to the Participating Creditors;

## LETTER FROM THE EGANA BOARD

- (b) the issue to the Participating Creditors at the Effective Date of HK\$80.0 million zero coupon guaranteed convertible bonds due 2010, exchangeable at their option into Egana Shares at the initial Conversion Price of HK\$0.05 each, pursuant to the Participating Creditors' CB Subscription Agreement (which has been approved by the parties thereto), and a trust deed and paying and conversion agency agreement to be finalised and signed;
- (c) an 80% share of the net recoveries of the Delinquent Debts (being doubtful receivables with potential but uncertain recoverability) to be paid to the Participating Creditors as and when the same are recovered with the remaining 20% being retained by the Egana Group, pursuant to the Delinquent Debts Agreement (which is to be finalised and signed);
- (d) the waiver on the Effective Date, by the Participating Creditors of the difference between the Participating Creditors' Debt and the aggregate sum of the three instalments of the Participating Creditors' Restructured Debt and the face amount of the Participating Creditors' Convertible Bonds as described above;
- (e) the agreement, as of the date of the Debt Restructuring Agreement by the Participating Creditors to a standstill arrangement in respect of any claims they may have against the Egana Group;
- (f) the written confirmation from the Non-Participating Creditors of a standstill arrangement for the restructuring period in respect of any claims they may have against the Egana Group;
- (g) the provision as at the Effective Date of new joint and several guarantees from the New Guarantors in favour of the Participating Creditors as security for the payment of certain amounts under the Debt Restructuring Agreement and under the existing loan documents between the Debtors and the Participating Creditors and of amounts owing under the Participating Creditors' Convertible Bonds pursuant to the Participating Creditors' Restructured Debt Guarantee and the Participating Creditors' Convertible Bonds Guarantee respectively (which are to be finalised and signed), with the material terms of the New Guarantees including provisions to the effect that:
  - (i) the amount which can be claimed under the New Guarantees is limited to an amount equal to the outstanding Participating Creditors' Restructured Debt (as reduced from time); and
  - (ii) all payments by the New Guarantors under the New Guarantees are subordinated to existing claims by the Participating Creditors under their existing loan documentation;
- (h) the issue (1) by Egana to Lifestyle's subsidiary, the Equity Subscriber, of 4,342,642,652 new Egana Shares at the subscription price of HK\$0.05 each for a total subscription price of HK\$217,132,132.6; and (2) by the Issuer to Lifestyle's subsidiary, the Bond Subscriber, of HK\$988,867,867 zero coupon guaranteed convertible bonds due 2010, exchangeable at its option into the Egana Shares at the initial Conversion Price of HK\$0.05 each, pursuant to the Subscription Agreement for both the Subscription Shares and the Lifestyle Convertible Bonds (which is in agreed form as initialled but not yet signed by the parties thereto) and an instrument for the Lifestyle Convertible

## LETTER FROM THE EGANA BOARD

Bonds (which is to be finalised and signed). The total consideration, amounting to approximately HK\$1,206 million, was determined after arm's length negotiations and is to be satisfied net of the Bridging Loan by Lifestyle by way of internal resources and external financings;

- (i) the provision as of the date of issue of the Lifestyle Convertible Bonds of new joint and several guarantees from the New Guarantors in favour of the Bond Subscriber as security for payment of amounts owing under the Lifestyle Convertible Bonds pursuant to a guarantee agreement (which is to be finalised and signed);
- (j) the subordination of the rights of Lifestyle and the Bond Subscriber which they may have respectively against any member of the Egana Group under the Lifestyle Convertible Bonds or otherwise to the rights of the Participating Creditors in respect of any amounts owing to them by the Egana Group under the Debt Restructuring Agreement, the Participating Creditors' Convertible Bonds and other restructuring documents; and
- (k) as of the date of issue of the Lifestyle Convertible Bonds, repayment of the Bridging Loan in full and release of the security for that facility.

As at the Cut-Off Date, the Egana Group owed the Participating Creditors and the Non-Participating Creditors an aggregate indebtedness of approximately HK\$3.73 billion, of which HK\$3.58 billion was owed to the Participating Creditors, and HK\$152.9 million was owed to Non-Participating Creditors. Out of the total net indebtedness of approximately HK\$152.9 million owed to the Non-Participating Creditors, approximately HK\$104.7 million was fully secured and owed to the Fully Secured Creditors. Pursuant to the Debt Restructuring Agreement, the first instalment of HK\$640.0 million shall be applied firstly to settle the entire amount due to the Fully Secured Creditors (and then the remainder of such instalment to repay amounts owing to the Participating Creditors) within 14 days of the Effective Date. It is intended that the Egana Group's relationship with the Non-Participating Creditors (other than the Fully Secured Creditors) will continue following completion of the Restructuring Proposal on the terms and conditions of the existing agreements/arrangements. The Non-Participating Creditors (other than the Fully Secured Creditors) will not be repaid out of the proceeds of the Restructuring Proposal. The receipt of written confirmation from each Non-Participating Creditor (other than the Fully Secured Creditors) that it will standstill for the restructuring period is one of the conditions precedent to completion of the Debt Restructuring Agreement.

It is currently anticipated that all of the remaining documents referred to above, including the Subscription Agreement, the Participating Creditors' CB Subscription Agreement and the Delinquent Debts Agreement, will be signed by the relevant parties shortly after the Egana EGM, although it may be necessary to defer signing of the Subscription Agreement to ensure that the waiver referred to in (d) above occurs before the transactions referred to in (h) above. In the event that there are any material variations of the terms contained in any of the Debt Restructuring Agreement and the Subscription Agreement, Lifestyle and/or Egana will make further announcement in this regard.

## LETTER FROM THE EGANA BOARD

The Capital Reduction was approved by the Egana Shareholders on 28 March 2008. Egana has made the relevant application to the Cayman Islands Court for an order effecting the Capital Reduction. The summons for directions in the application for the Capital Reduction was held on 9 May 2008 and the Cayman Islands Court made an order dispensing with the setting of a list of Egana creditors and with the need for advertisement of the petitioner. The petition was heard on 6 June 2008 whereupon the Cayman Islands Court approved the Capital Reduction. On 9 June 2008, Egana delivered a sealed copy of the court orders and minutes to the Registrar of Companies. The Registrar has now confirmed the Capital Reduction has taken effect. In due course, Egana will apply to the Listing Committee of the Stock Exchange for approval of the listing of, and permission to deal in, the Egana New Shares.

Immediately upon the issue of the Subscription Shares but before accounting for the Conversion Shares, and assuming that there have been no other changes in the issued share capital of Egana since the Latest Practicable Date, Lifestyle and its Concert Parties will be interested in an aggregate of approximately 74.8% of the enlarged issued share capital of Egana. Accordingly, Lifestyle and its Concert Parties will be required to make an unconditional mandatory general offer for all the securities of Egana (other than those already owned or agreed to be acquired by Lifestyle and its Concert Parties). Lifestyle has applied to the Executive for the Whitewash Waiver.

As at the Latest Practicable Date, the Egana Board consisted of four executive Egana Directors and two independent non-executive Egana Directors. In accordance with Rule 2.8 of the Takeovers Code, members of the Independent Egana Board Committee should comprise all non-executive Egana Directors who have no direct or indirect interest in the Restructuring Proposal, the Whitewash Waiver or the Special Deal Repayment. Accordingly, an independent board committee of Egana, comprising all independent non-executive Egana Directors (namely Professor Udo Glittenberg and Dr. Goetz Reiner Westermeyer, all having no direct or indirect interest in the Restructuring Proposal, the Whitewash Waiver and the Special Deal Repayment, and all being independent of and not acting in concert with Lifestyle and its concert parties) has been established to consider the Restructuring Proposal, the Special Deal Repayment and the Whitewash Waiver and to give recommendation to the Independent Egana Shareholders. Access Capital Limited, the independent financial adviser, has been appointed to advise the Independent Egana Board Committee and the Independent Egana Shareholders in this regard. Such appointment has been approved by the Independent Egana Board Committee.

The Egana Board also proposed the Capital Increase to facilitate the Restructuring Proposal and provide flexibility for equity fund raising in the future.

The purpose of this circular is, among other things, (i) to provide you with further details of the Restructuring Proposal, the Special Deal Repayment, the Whitewash Waiver and the Capital Increase; (ii) to set out the recommendation of the Independent Egana Board Committee to the Independent Egana Shareholders and the advice of Access Capital to the Independent Egana Board Committee and the Independent Egana Shareholders; and (iii) to provide you with a notice of the Egana EGM.

# LETTER FROM THE EGANA BOARD

## DEBT RESTRUCTURING AGREEMENT

Set out below are the principal terms of the Debt Restructuring Agreement:

### Parties

- (a) Egana on its own behalf and on behalf of the other Debtors named in the Debt Restructuring Agreement;
- (b) the Participating Creditors;
- (c) CITIC Ka Wah Bank Limited (as Asian Coordinator, security agent and paying agent for the Participating Creditors and trustee for the holders of the Participating Creditors' Convertible Bonds);
- (d) Dresdner Bank AG (as European Coordinator for the Participating Creditors); and
- (e) Lifestyle (as investor).

Save to the extent that the Bridging Loan provided by Lifestyle to Egana with pledged security, to the best of the knowledge, information and belief of the Egana Directors and after making all reasonable enquiries, Lifestyle, the Participating Creditors, CITIC Ka Wah Bank Limited, Dresdner Bank AG and their respective ultimate beneficial owners are third parties independent of Egana and its connected persons.

### Participating Creditors' Restructured Debt

With effect from the Effective Date, the Participating Creditors shall only be entitled to receive (i) the Participating Creditors' Restructured Debt (being an amount equal to the aggregate of HK\$1,920.0 million and the interest payable thereon less the amount payable to the Fully Secured Creditors as contemplated under the Debt Restructuring Agreement); (ii) the Participating Creditors' Convertible Bonds; and (iii) certain amounts recovered under the Delinquent Debts Agreement as described above as well as certain fees, costs and expenses and such sums as are owed under other restructuring documents. The Participating Creditors will waive all other rights against the Egana Group under the documentation evidencing the Participating Creditors' Debt, except that the Egana Group shall be liable to pay such additional amounts as detailed below upon early termination. The New Guarantees from the New Guarantors are required as security for the payment of certain amounts owing under the Debt Restructuring Agreement and under the existing loan documents between the Debtors and the Participating Creditors and for payment of all amounts owing to the Participating Creditors under the Participating Creditors' Convertible Bonds.

It is a term of the Debt Restructuring Agreement that, notwithstanding the Debt Restructuring Agreement having been signed and becoming effective, at any time following early termination as detailed in the paragraph headed "Termination" below, each Participating Creditor may claim from the Debtors amounts equivalent to all amounts which would have been owing to that Participating Creditor under the original loan documentation evidencing

## LETTER FROM THE EGANA BOARD

that Participating Creditors' Debt had the restructuring documents not been entered into less the aggregate amount received by it under the Restructuring Proposal which includes (a) the aggregate amount of instalment and interest payment received by that Participating Creditor under the Debt Restructuring Agreement; (b) the amount of that Participating Creditor's Debt which was used to subscribe for the Participating Creditors' Convertible Bonds allocated to that Participating Creditor; (c) the recovery amount of the Delinquent Debts which has been received by that Participating Creditor at the early termination date; and (d) (as at the time of receipt of such amounts by that Participating Creditor) any further amounts received by that Participating Creditor in respect of any Delinquent Debts following the early termination date.

### **Repayment of the Participating Creditors' Restructured Debt**

The principal of the Participating Creditors' Restructured Debt shall be settled in three instalments as follows:

- (a) HK\$640.0 million shall be paid to the paying agent for the Participating Creditors within 10 days of the Effective Date for distribution to the Fully Secured Creditors and the Participating Creditors on the date falling 14 days after the Effective Date;
- (b) HK\$640.0 million shall be paid to the paying agent within 10 days of the first anniversary of the Effective Date for distribution to the Participating Creditors; and
- (c) HK\$640.0 million shall be paid to the paying agent within 10 days of the second anniversary of the Effective Date for distribution to the Participating Creditors.

The Debtors may prepay all or part of the Participating Creditors' Restructured Debt in accordance with the terms of the Debt Restructuring Agreement without penalty.

If any Debtor disposes of any part of its present and future business, undertaking, property, assets, revenues, uncalled capital and rights of every description valued at not less than HK\$50,000,000 as specified in the latest published accounts of Egana but adjusted (where appropriate) in accordance with any more recent valuation of the same, then such cash proceeds must be applied in or towards mandatory prepayment of the Participating Creditors' Restructured Debt unless the Restructuring Opinion or the Restructuring Plan contemplates Egana may do otherwise.

### **Interest**

All outstanding interest due to the Participating Creditors up to the expiration of 9 months from the earlier of the Effective Date and the date falling 3 months after the date of the Debt Restructuring Agreement will be waived. Subsequently, interest will be payable quarterly at HIBOR for the applicable interest period plus 0.7%.

## LETTER FROM THE EGANA BOARD

### Conditions precedent to the Debt Restructuring Agreement

The obligations of the parties to the Debt Restructuring Agreement (other than obligations relating to the Participating Creditors' standstill, the payment of expenses and disclosure of information and confidentiality obligations) shall only arise when the Coordinators shall have received (or waived) each of the following in form and substance satisfactory to them within 4 months after the date of the Debt Restructuring Agreement or such later date as may be agreed among Lifestyle, Egana and the Coordinators:

- (a) in relation to Egana, certified true copies of:
  - (i) its certificate of incorporation (and any relative certificate of incorporation on change of name) and memorandum and articles of association;
  - (ii) a certificate of good standing issued by the Cayman Islands registrar;
  - (iii) a director's certificate signed by one of its directors in a form satisfactory to the Cayman Islands counsel;
  - (iv) a list of its directors;
  - (v) the resolutions passed by the Egana Directors and, (to the extent required by law or Egana's constitutional documents) Egana Shareholders approving and authorising, inter alia, a person or persons to execute the Debt Restructuring Agreement and the other restructuring documents to which it is a party and any other notices or documents required in connection therewith, and the specimen signatures of such persons;
  
- (b) in relation to each of the Debtors and the New Guarantors, certified true copies of :
  - (i) (if applicable) its certificate of incorporation (and any relative certificate of incorporation on change of name) or, with regard to those organised under the laws of Germany, a copy of an excerpt of the relevant commercial register;
  - (ii) its memorandum and articles of association or equivalent constitutional documents;
  - (iii) the resolutions passed by the directors and, (to the extent required by law or its constitutional documents) its shareholders approving and authorising, inter alia, a person or persons to execute the Debt Restructuring Agreement and the other restructuring documents to which it is a party and any other notices or documents required in connection therewith, and the specimen signatures of such persons;



## LETTER FROM THE EGANA BOARD

- (c) the restructuring documents duly executed by the parties thereto;
- (d) written confirmation from each Non-Participating Creditor (except the Fully Secured Creditors) in a form acceptable to the Coordinators that it will standstill for the restructuring period;
- (e) the letter of comfort duly executed by Lifestyle to evidence its in principle support of the Egana Group so as to enable the Egana Group to turn around its business and finances, and be able to meet its obligations from time to time;
- (f) the fee letters relating mainly to the fees of the Coordinators, security agent and paying agent, duly countersigned by Egana together with all fees due and payable thereunder as at the date of the Debt Restructuring Agreement;
- (g) evidence that the par value of Egana Shares has been reduced to HK\$0.01 per share;
- (h) evidence that the Lifestyle Convertible Bonds have been issued and the first payment of HK\$640 million has been received by the paying agent;
- (i) evidence that the Participating Creditors' Convertible Bonds have been issued;
- (j) evidence that the Bridging Loan has been, or on the Effective Date will be, repaid and that all security provided to Billion Empire Limited by any member of the Egana Group has been duly released;
- (k) a subordination agreement entered into between Lifestyle and the security agent in the agreed form, subordinating all rights which Lifestyle may have against any member of the Egana Group under the Lifestyle Convertible Bonds or otherwise to the rights of the Participating Creditors under the Restructuring Proposal;
- (l) evidence that all authorisations have been obtained and that all necessary filings, registrations and other formalities have been or will be completed in order to ensure that the restructuring documents are valid and enforceable and to preserve the security agent's priority under any restructuring document to which it is a party;
- (m) written confirmation of acceptance of appointment of process agents from each agent for service of process named in each restructuring document;
- (n) evidence that all fees, costs and expenses due and payable under the Debt Restructuring Agreement have been duly paid;
- (o) a certified true copy of the Restructuring Plan in form and substance satisfactory to the Coordinators acting on the instructions of the Participating Creditors (acting reasonably);

## LETTER FROM THE EGANA BOARD

- (p) the Restructuring Opinion issued by KPMG in form and substance satisfactory to the Coordinators acting on the instructions of the Participating Creditors (acting reasonably);
- (q) legal opinions from counsel to the Coordinators in the Cayman Islands, Hong Kong and other relevant jurisdictions respectively confirming, inter alia, that the Debt Restructuring Agreement and the New Guarantees are legal, valid, binding and enforceable in respect of the obligations of Egana, the Debtors and the New Guarantors respectively;
- (r) a legal opinion in the agreed form from counsel to Egana in England confirming that the Participating Creditors' Convertible Bonds are legal, valid, binding and enforceable in accordance with their terms;
- (s) any documentation (including novation agreements executed by the relevant original Debtor agreeing and acknowledging that it will continue to honour its obligations under existing loan documents or existing security documents in the event of an early termination of the Debt Restructuring Agreement to the relevant Participating Creditor) which may be reasonably required; and
- (t) written evidence that (1) the competent tax authorities in Germany (both federal and municipal) have irrevocably waived or irrevocably committed themselves to waive any claims to taxes which may otherwise be levied in Germany on a gain of the German companies of the Egana Group resulting from a waiver of the Participating Creditors' Debt, interest or any other amount pursuant to the Debt Restructuring Agreement provided always that no conditions are imposed for the grant of such waiver which are, in the opinion of Lifestyle, either unreasonable conditions or conditions which would impose an unduly onerous burden on the relevant German companies, their non-German holding companies or Lifestyle and (2) the Inland Revenue Department of Hong Kong has issued an advance tax ruling under the Inland Revenue Ordinance (Cap. 112) to the effect that no member of the Egana Group shall be liable to tax under such Ordinance in respect of any waiver of the Participating Creditors' Debt, interest or any other amount pursuant to the Debt Restructuring Agreement.

As at the Latest Practicable Date, no conditions precedent to the Debt Restructuring Agreement has been fulfilled, except for the execution of the Debt Restructuring Agreement and item (g) above.

In the event that all of the conditions above have not been satisfied or waived (as the case may be) on or before the date falling 4 months after the date of the Debt Restructuring Agreement or such later date as may be agreed among Lifestyle, Egana and the Coordinators (acting on the instructions of the Participating Creditors holding at least 75% of the Participating Creditors' Restructured Debt), the Debt Restructuring Agreement (with the exception of certain clauses) and such of the other restructuring documents as may then have been executed and delivered, shall cease to have any further force or effect and the security agent shall promptly release and discharge any security created in relation thereto. All Participating Creditors' Debt shall become immediately repayable on demand subject to and in accordance with the terms and conditions of the relevant documents evidencing the Participating Creditors' Debt and the existing security.

## LETTER FROM THE EGANA BOARD

### Termination

An early termination event under the Debt Restructuring Agreement will occur if any of the following events and circumstances occurs:

- (a) any amount payable under any restructuring document is not paid to the paying agent when due or otherwise in accordance with the provisions thereof;
- (b) Egana fails duly and punctually to perform or comply with any of its obligations or undertakings under any restructuring document (which is not a failure to pay money) to which it is a party;
- (c) any representation or warranty made or repeated by Egana in any restructuring document is incorrect or misleading in any material respect when made;
- (d) Egana defaults or receives notice of default under any agreement or obligation relating to borrowing or any indebtedness of Egana becomes payable or capable of being declared payable before its stated maturity or is not paid when due and in each case exceeding an amount of HK\$15 million, or any encumbrance, guarantee or other security at the date of the Debt Restructuring Agreement or thereafter created by Egana becomes enforceable for an underlying debt in each case exceeding an amount of HK\$15 million (excluding existing events of default under its existing loan documents);
- (e) any of the authorisations referred to in the Debt Restructuring Agreement is not granted or ceases to be in full force and effect or is modified in a manner which, in the reasonable opinion of the Coordinators, will have a material adverse effect, or if any law, regulation, judgment or order (or the repeal or modification of any of the foregoing) suspends, varies, terminates or excuses performance by Egana of any of its material obligations under any restructuring document or purports to do any of the same;
- (f) with the exception of any judgment or arbitration award which is granted in relation to any disclosed litigation, any final non-appealable judgment or an arbitration award in any amount exceeding HK\$15 million is rendered against Egana;
- (g) a creditor takes possession of all or any part of the business or assets of Egana with a value in excess of HK\$15 million or any execution or other legal process is enforced against any such business or any such assets of Egana;
- (h) any insolvency proceedings are instituted by or against Egana;
- (i) except in connection with the restructuring contemplated under the Debt Restructuring Agreement, Egana stops or suspends payments to its creditors generally or is unable or admits its inability to pay its debts as they fall due or seeks to enter into any composition or other arrangement with its creditors or is declared or becomes bankrupt or insolvent;

## LETTER FROM THE EGANA BOARD

- (j) any event occurs which in the reasonable opinion of the Coordinators appears to have an effect analogous to the matters set out in paragraphs (g), (h) or (i) above in any relevant jurisdiction;
- (k) save for the discontinuation or disposal of businesses and/or assets of the Egana Group contemplated under the Restructuring Opinion or the Restructuring Plan, Egana ceases or threatens to cease to carry on its business or any substantial part thereof or changes or threatens to change (in any material respect) the nature or scope of its business or Egana disposes of or threatens to dispose of or any governmental or other authority expropriates or threatens to expropriate all or any substantial part of its business or assets;
- (l) any event which has an effect equivalent or similar to any of the events described in any of the above paragraphs occurs, mutatis mutandis, in relation to any Debtor, any New Guarantor or the Issuer;
- (m) any restructuring document or any material provision thereof ceases for any reason to be in full force and effect or is terminated or jeopardised or becomes invalid or unenforceable or if there is any dispute regarding the same or if there is any purported termination or repudiation of the same or it becomes impossible or unlawful for any member of the Egana Group or any other party thereto to perform any of its obligations thereunder or for any Participating Creditor to exercise all or any of its rights, powers and remedies thereunder or any undertaking is not enforceable as such and Egana fails to do, or fails to refrain from doing, the activity which it purported to undertake to do or, as the case may be, not to do;
- (n) any situation occurs which the majority Participating Creditors reasonably believe has or will have a material adverse effect on the Egana Group or the validity or enforceability of any restructuring document or the rights or remedies of any Participating Creditor under the Restructuring Documents; and
- (o) Lifestyle fails to maintain a minimum shareholding of at least 51% in the entire issued share capital of Egana.

If any event above is continuing and is not remedied within 3 business days in the case of the event under paragraph (a) above or 20 business days for any other event listed above, the Participating Creditors shall convene a meeting to discuss whether to deliver a notice to Egana for the early termination.

With effect from the early termination of the Debt Restructuring Agreement:

- (a) the restructuring shall immediately terminate and the Participating Creditors shall be immediately released from all of their obligations under the Debt Restructuring Agreement and the other restructuring documents except certain provisions set out in the Debt Restructuring Agreement;

## LETTER FROM THE EGANA BOARD

- (b) subject to the terms of the New Guarantees, the security agent shall be entitled to enforce the New Guarantees; and
- (c) each Participating Creditor shall be entitled to take action against the relevant Debtors to recover amounts equivalent to the amounts waived by the Participating Creditors under the Debt Restructuring Agreement, and other amounts owed under existing loan documents and existing security documents.

### **Standstill**

Each Participating Creditor undertakes to each of the other Participating Creditors and the Coordinators and to Egana and each of the other members of the Egana Group that, with effect from the date of the Debt Restructuring Agreement and unless and until (1) any notice is issued by the Coordinators stating the conditions precedent to the Debt Restructuring Agreement have not been satisfied or waived or (2) any notice of an any early termination date is given:

- (a) it will not make any demand for payment or otherwise upon, institute or pursue any legal action against, or take any action to enforce any security or guarantee provided by, any member of the Egana Group in respect of its Participating Creditors' Debt or threaten or purport so to do; and
- (b) it will not make any demand for payment or otherwise upon, institute or pursue any legal action against, or take any action to enforce any security or guarantee provided by, any other person which relates in any way to the Participating Creditors' Debt or threaten or purport so to do where to do so would give rise to any claim by such person against any member of the Egana Group.

### **Undertakings**

#### *Information undertakings:*

Egana Group undertakes to provide its financial reports (quarterly, interim and annual reports), circulars and notices to Egana Shareholders, and other information requested by the Coordinators, to the CITIC Ka Wah Bank Limited as Asian Coordinator and Dresdner Bank AG as European Coordinator (if appropriate) for dissemination to the Participating Creditors. Egana Group also undertakes to notify the Coordinators of any litigation or arbitration proceeding against the Egana Group involving a potential liability of any member of the Egana Group exceeding HK\$15,000,000, any encumbrance attaching to any of assets of the Egana Group, any breach of any representation, warrantor undertaking under the restructuring documents which could reasonably be expected to have a material adverse effect and any potential early termination event or other occurrence relating to a member of the Egana Group which could reasonably be expected to have a material adverse effect. Egana must also promptly notify the Coordinators if any of the estimates, forecasts or projections made in the Restructuring Plan should change in a material adverse way.

## LETTER FROM THE EGANA BOARD

### *Corporate matter undertakings:*

Egana and the Debtors undertake that they will not, and they will procure that none of members of the Egana Group shall, among other things:

- (a) create or permit to subsist any encumbrance over any of its assets other than permitted encumbrances including, among other things, the Lifestyle Convertible Bond guarantee, any encumbrance created under any restructuring document, any lien or other security interest or right of set-off arising by operation of law or contract in the ordinary course of its business and any existing security granted to the Participating Creditors;
- (b) make any substantial change to the general nature or scope of the business of the Egana Group as a whole from that carried on at the date of the Debt Restructuring Agreement;
- (c) make any loans or grant any credit to or for the benefit of any person, other than loans or credit granted in the normal course of its day to day trading activities;
- (d) incur or permit to subsist any indebtedness other than permitted indebtedness;
- (e) accrue interest on indebtedness owing by any member of the Egana Group to any other member of the Egana Group at a rate which exceeds the prevailing commercial rate at such time;
- (f) take any action to wind up any member of the Egana Group or to wind up the affairs of any member of the Egana Group except for (i) any actions, steps or proceedings proposed in the Restructuring Plan or the Restructuring Opinion; and (ii) any solvent voluntary liquidation of a member of the Egana Group contributing, when taken together with any other member of the Egana Group which is to be so wound up, not less than in aggregate 5% to the consolidated revenue of the Egana Group or representing not less than 5% of the consolidated net asset value of the Egana Group (in both cases determined as at the last audited balance sheet date), or to initiate litigation or other court proceedings in relation to any member of the Egana Group;
- (g) enter into any derivative or treasury positions unless there exist sound commercial grounds for doing so;
- (h) sell or otherwise dispose of any asset other than (i) in the ordinary course of its day to day trading activities on an arms' length basis; (ii) in the case of any material asset, a sale or disposal which has been approved by the majority Participating Creditors; or (iii) an asset which is not a material asset;
- (i) enter into any transactions with any member of the Egana Group other than on an arms' length basis;

## LETTER FROM THE EGANA BOARD

- (j) transfer or otherwise dispose of any asset within the Egana Group other than in the ordinary course of day to day business or with the prior consent of the Coordinators;
- (k) without the prior approval of the Coordinators, enter into or make any commitment in relation to any transaction requiring or involving any capital investment or expenditure or assume or incur any liability of a capital nature other than where the aggregate liability incurred for all such transactions in any six month period, does not exceed HK\$20 million; or
- (l) redeem, repay, purchase or repurchase any Participating Creditors' Debt other than in accordance with the terms of the restructuring documents.

### **Monitoring**

Participating Creditors have the right to retain or request Egana to retain KPMG or other adviser as their independent financial adviser to report to them on any aspect of the Restructuring Proposal.

Egana is responsible for cost and expenses of the independent financial adviser for the period up to and including the Effective Date, and following any early termination event. The cost and expenses of the independent financial adviser shall be borne by the Participating Creditors after the Effective Date unless and until such time as there is a termination event.

### **PROPOSED CONDITIONAL SUBSCRIPTION AGREEMENT**

Set out below are the principal proposed terms of the proposed conditional Subscription Agreement:

#### **Parties**

- (a) Egana as issuer of the new Egana Shares to be subscribed and the new Egana Shares into which the Lifestyle Convertible Bonds may be exchanged;
- (b) Horizon Asset Holdings Ltd., a wholly-owned subsidiary of Egana, as Issuer of the Lifestyle Convertible Bonds;
- (c) Win Promise Limited, a wholly-owned subsidiary of Lifestyle, as the Equity Subscriber for the Subscription Shares;
- (d) Treasure Focus Ltd., a wholly-owned subsidiary of Lifestyle, as the Bond Subscriber for the Lifestyle Convertible Bonds; and
- (e) Lifestyle.

## LETTER FROM THE EGANA BOARD

Save to the extent that the Bridging Loan provided by Lifestyle to Egana with pledged security, to the best of the knowledge, information and belief of the Egana Directors and after making all reasonable enquiries, Lifestyle, the Equity Subscriber, the Bond Subscriber and their respective ultimate beneficial owners are third parties independent of Egana and its connected persons.

### **Subscription Shares**

Under the proposed Subscription Agreement, the Equity Subscriber will agree, subject to the satisfaction or waiver of the relevant conditions precedent set out in the proposed Subscription Agreement, to subscribe for an aggregate of 4,342,642,652 new Egana Shares at a subscription price of HK\$0.05 per Egana Share. The Subscription Shares will represent approximately 296.6% of the issued share capital of Egana as at the Latest Practicable Date and approximately 74.8% of the enlarged issued share capital of Egana after the issue of the Subscription Shares but before any conversion of any of the Participating Creditors' Convertible Bonds or the Lifestyle Convertible Bonds.

The Subscription Shares will be issued under a specific mandate proposed to be sought from Independent Egana Shareholders at the Egana EGM.

### **Lifestyle Convertible Bonds**

Under the proposed Subscription Agreement, the Bond Subscriber will conditionally agree to subscribe for the Lifestyle Convertible Bonds, which are zero coupon convertible bonds in the aggregate principal amount of HK\$988,867,867 due 2010, exchangeable at the option of the holder(s) thereof into new Egana Shares at an initial Conversion Price of HK\$0.05 per Egana Share. On the basis of the 1,464,001,524 Egana Shares in issue as at the Latest Practicable Date, upon full conversion of the entire principal amount of the Lifestyle Convertible Bonds into the Conversion Shares at the initial Conversion Price of HK\$0.05, a total of 19,777,357,340 Conversion Shares will be issued, which represents (1) approximately 13.5 times of the issued share capital of Egana as at the Latest Practicable Date, (2) approximately 77.3% of the enlarged issued share capital of Egana upon the issue of the Subscription Shares and the full conversion of the Lifestyle Convertible Bonds but before the full conversion of the Participating Creditors' Convertible Bonds, and (3) approximately 72.8% of the enlarged issued share capital of Egana upon the issue of the Subscription Shares and the full conversion of the Lifestyle Convertible Bonds and the Participating Creditors' Convertible Bonds.

The Conversion Shares will be issued under a specific mandate proposed to be sought from Independent Egana Shareholders at the Egana EGM.



## LETTER FROM THE EGANA BOARD

### Subscription price and the Conversion Price

The Subscription price and the initial Conversion Price of HK\$0.05 per Subscription Share and Conversion Share respectively represent:

- (a) a discount of approximately 92.42% to the closing price of HK\$0.66 per Egana Share as quoted on the Stock Exchange on 11 September 2007 (being the last trading day (the “Last Trading Day”) immediately prior to the suspension of trading in Egana Shares on 12 September 2007);
- (b) a discount of approximately 92.96% to the average closing price of Egana Shares for the five consecutive trading days ended on the Last Trading Day of approximately HK\$0.71 per Egana Share;
- (c) a discount of approximately 95.87% to the average closing prices of Egana Shares for the ten consecutive trading days ended on the Last Trading Day of approximately HK\$1.21 per Egana Share; and
- (d) a discount of approximately 77.27% to the audited consolidated net asset value of the Egana Group attributable to Egana Shareholders of approximately HK\$0.22 per Egana Share based on the audited consolidated net asset value of the Egana Group attributable to Egana Shareholders of approximately HK\$321,260,000 as at 31 May 2007, being the date to which the latest published annual report of the Egana Group was made up, and the issued share capital of 1,464,001,524 Egana Shares as at 31 May 2007.

The unaudited consolidated net deficit value of the Egana Group was approximately HK\$0.71 per Egana Share calculated on the basis of the unaudited consolidated net deficit of the Egana Group attributable to Egana Shareholders of approximately HK\$1,038,621,000 as at 30 November 2007, being the date to which the latest published interim financial statements of the Egana Group were made up, and the issued share capital of 1,464,001,524 Egana Shares as at 30 November 2007.

### Ranking of the Subscription Shares and the Conversion Shares

The Subscription Shares and the Conversion Shares, will be issued or credited as fully paid as the case may be, and will rank pari passu in all respects with all other Egana Shares in issue as at the date of their issue.

## LETTER FROM THE EGANA BOARD

### Principal terms of the Lifestyle Convertible Bonds

Principal proposed terms of the Lifestyle Convertible Bonds which will be further elaborated in the instrument to be made by the Issuer and Egana are set out below:

Issuer	:	Horizon Asset Holdings Ltd.
Principal amount	:	HK\$988,867,867
Denomination	:	HK\$10,000,000 each, or in relation to the odd lot of HK\$8,867,867 Lifestyle Convertible Bonds, in the denomination of HK\$8,867,867
Maturity	:	Unless previously redeemed, converted or purchased and cancelled, the Issuer will redeem each outstanding Lifestyle Convertible Bond at 100% of its principal amount on the Maturity Date.
Interest	:	Zero coupon
Status	:	The Lifestyle Convertible Bonds constitute direct, unconditional and (except for the negative pledge provision discussed below) unsecured obligations of the Issuer and shall (except to the extent subordinated to the rights of the Participating Creditors in respect of any amounts owing to them by the Egana Group under the Debt Restructuring Agreement, the Participating Creditors' Convertible Bonds and other restructuring documents) at all times rank pari passu and rateably without preference equally with all other present and future direct, unconditional and unsecured obligations of Egana and without any preference or priority among themselves.
Conversion	:	Subject to the terms of the Lifestyle Convertible Bonds, the bondholder(s) will have the right to convert at any time on and after the issue date up to the close of business on the Maturity Date or if such Lifestyle Convertible Bonds shall have been called for redemption by the Issuer before the Maturity Date, then up to the close of business on a date no later than 7 business days prior to the date fixed for redemption.

## LETTER FROM THE EGANA BOARD

If (a) the Issuer shall default in making payment in full in respect of any Lifestyle Convertible Bonds which shall have been called for redemption on the date fixed for redemption thereof; (b) any Lifestyle Convertible Bonds have become due and payable prior to the Maturity Date by reason of the occurrence of early termination as disclosed in the paragraph headed “Termination” under the section headed “Debt Restructuring Agreement” above; or (c) any Lifestyle Convertible Bonds are not redeemed on the Maturity Date in accordance with the terms and conditions, the conversion right attaching to such Lifestyle Convertible Bonds will revive and/or will continue to be exercisable up to, and including, the close of business on the date upon which the full amount of the moneys payable in respect of such Lifestyle Convertible Bonds have been duly received by the bondholder(s).

Fractions of Egana Shares will not be issued on conversion and no cash adjustments will be made in respect thereof.

Conversion Price : The initial Conversion Price is HK\$0.05 per Egana Share of par value of HK\$0.01 each.

The Conversion Price is subject to adjustment from time to time on the occurrence of the following events that have a dilutive or concentrative effect on the value of the Egana Shares:

- (1) alteration to the nominal value of the Egana Shares as a result of consolidation, subdivision, reclassification;
- (2) capitalisation of profits or reserves;
- (3) capital distribution;
- (4) rights issues of shares or options over shares at a price which is less than 95% of the current market price;
- (5) rights issue of other securities;
- (6) issue of shares and/or grant of options, warrants or other rights to subscribe for shares at a price which is less than 95% of the current market price;
- (7) issues of other securities with rights to convert, exchange or subscribe for shares at a price which is less than 95% of the current market price;

## LETTER FROM THE EGANA BOARD

(8) modification of rights of conversion or exchange or subscription attached to securities that can be converted, exchanged or subscribed for shares so that the consideration per share is at a price being less than 95% of the current market price; and

(9) other offers to shareholders.

Conversion Shares : The Conversion Shares shall, when issued, rank pari passu in all respects with all other issued share capital of Egana on the date of conversion including the right to all dividends or other distributions.

It is a term and condition that the bondholder(s) shall exercise the conversion rights attaching to the Lifestyle Convertible Bonds only if it is confirmed by Egana that the allotment and issue of the Conversion Shares under the Lifestyle Convertible Bonds to the bondholder(s) pursuant to an exercise of the conversion right attaching to the Lifestyle Convertible Bonds will not cause Egana to be in breach of the minimum public float requirement stipulated under Rule 8.08 of the Listing Rules immediately upon the allotment and issue of such Egana Shares.

Early redemption : At any time after the first anniversary of the issue date but not less than 7 business days prior to the Maturity Date, the Issuer may, having given prior written notice in accordance with the terms and conditions, redeem the Lifestyle Convertible Bonds in whole but not in part, provided that no such redemption may be made unless the closing price of the Egana Shares for each of the 15 consecutive trading days, the last trading day of which falls on the 5th trading day immediately prior to the date upon which the early redemption notice is given, was greater than the higher of: (a) HK\$0.20; and (b) 4 times of the prevailing Conversion Price.

Enforcement : At any time after an early termination as disclosed in the paragraph headed "Termination" under the section headed "Debt Restructuring Agreement" above has occurred, the bondholder(s) may declare that the Lifestyle Convertible Bonds have become due and payable, and/or commence proceedings against the Issuer and/or Egana to enforce payment.

Transferability : The Lifestyle Convertible Bonds may be transferred subject to compliance of the conditions including the delivery of transfer forms to the Issuer. No transfer is allowed during the transfer closed periods including (a) during the period of 7 days ending on (and including) the dates for payment of any principal; and (b) after conversion notices having been delivered with respect to such Lifestyle Convertible Bonds.

## LETTER FROM THE EGANA BOARD

Voting : Holders of the Lifestyle Convertible Bonds will not be entitled to receive notices of, attend or vote at any general meetings of Egana by reason only of it being a holder of such Lifestyle Convertible Bonds.

Listing : The Lifestyle Convertible Bonds will not be listed on the Stock Exchange or any other stock exchange. An application will be made by Egana to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares to be issued upon the exercise of the conversion rights attached to the Lifestyle Convertible Bonds.

The Conversion Shares will be issued under a specific mandate proposed to be sought from Independent Egana Shareholders at the Egana EGM.

Negative pledge : So long as any Lifestyle Convertible Bond remains outstanding and save as permitted under the Debt Restructuring Agreement, neither Egana nor the Issuer will create or permit to subsist, and each of Egana and the Issuer will procure that no subsidiary of Egana creates or permits to subsist, any mortgage, charge, pledge, lien or other form of encumbrance or security interest upon the whole or any part of its undertaking, assets or revenues, present or future, to secure any international investment securities (which are for the time being quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other securities market) or to secure any guarantee of or indemnity in respect of any international investment securities unless, at the same time or prior thereto, the Issuer's obligations under the Lifestyle Convertible Bonds or, as the case may be, the New Guarantors' obligations under the Lifestyle Convertible Bonds guarantee (a) are secured equally and rateably therewith, or (b) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by the holders of the Lifestyle Convertible Bonds.

Limited grant of rights : So long as any Lifestyle Convertible Bond remains outstanding and save with the approval of the bondholders, Egana will procure that no securities (whether issued by Egana or any of its subsidiaries or otherwise procured by Egana or any of its subsidiaries to be issued) issued without rights to convert into or exchange or subscribe for Egana Shares shall subsequently be granted such rights at a price per Egana Share which is less than 95% of the current market price per Egana Share unless the same gives rise to an adjustment of the Conversion Price and that at no time shall there be in issue Egana Shares of differing nominal values.

## LETTER FROM THE EGANA BOARD

### Proposed conditions of the Subscription

Completion of the proposed Subscription Agreement will be conditional upon certain conditions precedent set out in the proposed Subscription Agreement having been satisfied or waived (as the case may be):

- (a) the passing of ordinary resolution(s) by the Independent Egana Shareholders in general meeting by poll, to approve and authorise (i) the allotment and issue of the Subscription Shares, the Lifestyle Convertible Bonds and the Conversion Shares; (ii) the Whitewash Waiver; and (iii) other transactions contemplated under the Subscription Agreement;
- (b) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, all of the Subscription Shares and the Conversion Shares and such listing and permission not being subsequently revoked prior to completion of the proposed Subscription Agreement;
- (c) the Executive granting a conditional Whitewash Waiver;
- (d) the resumption of trading of the Egana Shares on the Stock Exchange not later than completion of the proposed Subscription Agreement or the Stock Exchange granting an approval for the resumption of trading of the Egana Shares on the Stock Exchange not later than completion of the Subscription Agreement and such approval not being subsequently revoked prior to completion of the proposed Subscription Agreement;
- (e) Egana having obtained all other necessary regulatory approvals in respect of the Subscription Agreement and the transactions contemplated thereunder;
- (f) there being as at completion date and there having been prior to the completion date no breach of the warranties and no event or condition which would (if existing or occurring after the issue of the Lifestyle Convertible Bonds) constitute an early termination event under any documents in relation to the Lifestyle Convertible Bonds or an event or act which, with the giving of notices, or the lapse of time, or both, would constitute such an early termination event;
- (g) Lifestyle being satisfied with the results of the due diligence review on the Egana Group, including in relation the Egana Group's assets, liabilities, contracts, commitments, and its business and financial, legal, taxation and compliance aspects;
- (h) the Capital Reduction having become effective under the laws of the Cayman Islands and a copy of the order of the Cayman Islands court sanctioning the Capital Reduction certified true by any Egana Director having been delivered to Lifestyle;

## LETTER FROM THE EGANA BOARD

- (i) the conditions precedent to the Debt Restructuring Agreement being satisfied or waived in accordance with its terms except for the conditions precedent requiring the completion of the Subscription Agreement or the occurrence of the simultaneous completion matters which means (unless otherwise agreed to by the parties to the proposed Subscription Agreement):
  - (i) the receipt by the paying agent of the Participating Creditors under the Debt Restructuring Agreement of the first instalment of the payments required to be made by Egana under the Debt Restructuring Agreement in Hong Kong dollars or Euro as appropriate but equivalent in aggregate in any event to the amount of HK\$640,000,000;
  - (ii) the issue of the Participating Creditors' Convertible Bonds under the Debt Restructuring Agreement; and
  - (iii) the issue of the contractually non-binding letter of comfort by Lifestyle; and
- (j) approval of the Lifestyle Shareholders for the Subscription Agreement and the transactions contemplated thereunder.

As at the Latest Practicable Date, no conditions precedent to the Subscription Agreement has been fulfilled.

In connection with the granting of approval for listing of the Subscription Shares and/or the Conversion Shares or for the resumption of trading in the Egana Shares, if the Stock Exchange, the Executive or the SFC stipulate any pre-conditions or requirements which would apply to or have to be discharged by Lifestyle or by any member of the Egana Group, then as between Egana and Lifestyle and for the purpose of determining whether or not the parties shall continue on to completion of the Subscription Agreement, Lifestyle reserves the right, and Egana agrees that Lifestyle shall be entitled, at its sole discretion to elect not to accept any of such pre-conditions or requirements.

If any of the above conditions is not fulfilled, or waived in whole or in part by Lifestyle on or before 27 September 2008 or such later date as may be agreed among parties in writing, the Subscription Agreement and all rights and obligations thereunder will cease and terminate and no party shall have any liability under the Subscription Agreement except for obligations which are expressly agreed in the Subscription Agreement. Conditions (c), (f) and (g) are the conditions that can be waived by Lifestyle.

Egana will apply to the Listing Committee of the Stock Exchange for approval of the listing of, and permission to deal in, the Subscription Shares and the Conversion Shares. After the conditions of the Subscription have been fulfilled and/or waived (as the case may be), completion shall take place on the Effective Date, unless it is necessary for completion to take place after the Effective Date in which case completion shall take place shortly after the Effective Date.

### **Completion**

Unless otherwise agreed between the parties, completion of the Subscription Agreement takes place only if (a) subscription of Lifestyle Convertible Bonds is simultaneously completed with subscription of the Subscription Shares; and (b) all simultaneous completion matters set out in the paragraph headed "Proposed conditions of the Subscription" above occur simultaneously with completion of the Subscription Agreement.

## LETTER FROM THE EGANA BOARD

In the event that:

- (a) the relevant tax waivers referred to in condition (t) as set out in the paragraph headed “Conditions precedent to the Debt Restructuring Agreement” under the section headed “Debt Restructuring Agreement” above are not delivered in accordance with the Debt Restructuring Agreement but all of the parties to the Subscription Agreement and the Coordinators, have agreed to proceed to completion of the Debt Restructuring Agreement;
- (b) all conditions precedent to the Debt Restructuring Agreement have been satisfied or otherwise waived (in particular, requirement of completion of the Subscription Agreement having been waived and the issue of the letter of comfort by Lifestyle having been waived and such issue having been deferred to the second deferred completion date) in accordance with the Debt Restructuring Agreement;
- (c) the Coordinators have confirmed in writing to Egana that the waiver of the Participating Creditors’ Debt and interest pursuant to the Debt Restructuring Agreement has already become effective;
- (d) the tax advisers acting for Egana have, based on their past experience with the tax authorities in Germany and their interpretation and understanding of the law and practice in Germany relating to taxation and subject to any rulings and/or interpretations issued by any competent court or regulatory authority after the date of the confirmations, confirmed to Lifestyle in form satisfactory to it that the provisions of terms of the Subscription Agreement suffice to enable the Egana Group in strict compliance with the laws and regulations and existing tax practice in Germany to use all of the currently unutilised loss carry forwards in Germany to set off (to the extent of such currently unutilised loss carry forwards) all taxes chargeable in Germany as a result of the waiver of the Participating Creditors’ Debt and interest pursuant to the Debt Restructuring Agreement; and
- (e) Egana has not later than 10 days prior to the date of the Subscription Agreement provided Lifestyle with a copy of the finalized management accounts of the Egana Group for the year ended 31 May 2008,

then completion of the Subscription Agreement shall take place on the first deferred completion date (being 1:00 a.m. on the day immediately following the day on which the waiver of the Participating Creditors’ Debt and interest has taken effect and on the second deferred completion date (being 9:00 a.m. on the day immediately following the first deferred completion date) in accordance with the terms of the Subscription Agreement.

### **Appointment of Egana Directors**

Egana shall take all actions necessary to appoint such persons as may be nominated by the Equity Subscriber as its directors, with effect from the earliest time permissible under the Takeovers Code.



# LETTER FROM THE EGANA BOARD

## PARTICIPATING CREDITORS' CB SUBSCRIPTION AGREEMENT

Set out below are the principal proposed terms of the Participating Creditors' CB Subscription Agreement:

### Parties

- (a) Horizon Asset Holdings Ltd., a wholly-owned subsidiary of Egana (as Issuer);
- (b) Egana;
- (c) CITIC Ka Wah Bank Limited (as Asian Coordinator); and
- (d) the Participating Creditors.

### Subscription

As part of the Restructuring Proposal, the Issuer proposes to issue HK\$80 million in aggregate principal amount of zero coupon guaranteed Participating Creditors' Convertible Bonds. The Participating Creditors' Convertible Bonds will be constituted by a trust deed between the Issuer, Egana and CITIC Ka Wah Bank Limited as trustee. Egana and its selected major subsidiaries named in the Participating Creditors' Convertible Bonds Guarantee will jointly and severally guarantee the payment obligations under the Participating Creditors' Convertible Bonds. On the basis of the 1,464,001,524 Egana Shares in issue as at the Latest Practicable Date, upon full conversion of the entire principal amount of the Participating Creditors' Convertible Bonds into the Conversion Shares at the initial Conversion Price of HK\$0.05, a total of 1,600,000,000 Conversion Shares will be issued, which represents (1) approximately 109.3% of the issued share capital of Egana as at the Latest Practicable Date, (2) approximately 21.6% of the enlarged issued share capital of Egana upon the issue of the Subscription Shares and the full conversion of the Participating Creditors' Convertible Bonds but before the full conversion of the Lifestyle Convertible Bonds, and (3) approximately 5.9% of the enlarged issued share capital of Egana upon the issue of the Subscription Shares and the full conversion of the Lifestyle Convertible Bonds and the Participating Creditors' Convertible Bonds.

### Conditions precedent of the Participating Creditors' CB Subscription Agreement

The obligations of the Participating Creditors to subscribe for the Participating Creditors' Convertible Bonds are subject to the following conditions precedent, the satisfaction and approval of which shall be coordinated through the Asian Coordinator:

- (a) the Stock Exchange shall have agreed, subject to any conditions reasonably satisfactory to the Participating Creditors, to the issuance of the Participating Creditors' Convertible Bonds and the listing of the Conversion Shares;

## LETTER FROM THE EGANA BOARD

- (b) on or prior to the Effective Date, there shall have been delivered to the Participating Creditors, each in a form reasonably satisfactory to the Participating Creditors, legal opinions in respect of Hong Kong law, British Virgin Islands law and Cayman Islands law, dated the Effective Date;
- (c) there shall have been delivered to the Participating Creditors a copy of the board resolution of the Issuer authorising and approving the issue of the Participating Creditors' Convertible Bonds, the transactions contemplated under the Participating Creditors' CB Subscription Agreement, the trust deed, the paying and conversion agency agreement and the execution and delivery of each of these agreements; and
- (d) on the Effective Date (i) the representations and warranties of the Issuer and Egana as set out in the Participating Creditors' CB Subscription Agreement shall be accurate and correct in all material respects (except in the case of any representations and warranties of the Issuer and Egana that are qualified by materiality, in which case such representations and warranties shall be accurate and correct in all respects) at, and as if made on, the Effective Date; (ii) the Issuer and Egana shall have performed all of their respective obligations thereunder expressed to be performed on or before the Effective Date and (iii) there shall have been delivered to the Asian Coordinator (acting on behalf of the Participating Creditors) a certificate, dated as of the Effective Date, of a duly authorised officer of each of the Issuer and Egana to such effect.

If any of the above conditions precedent is not satisfied or waived (as the case may be) on or before the date falling four months after the date of the Participating Creditors' CB Subscription Agreement or such other date as may be agreed between Egana, Lifestyle and the Coordinators of the Debt Restructuring Agreement, the Participating Creditors' CB Subscription Agreement shall cease to have any force or effect, provided that the Participating Creditors may at their discretion, waive compliance with the whole or any part of the conditions above.

The Participating Creditors' Convertible Bonds shall be issued on the Effective Date.

### **PRINCIPAL TERMS OF THE PARTICIPATING CREDITORS' CONVERTIBLE BONDS**

Issuer	:	Horizon Asset Holdings Ltd., a wholly-owned subsidiary of Egana
Principal amount	:	HK\$80 million
Denomination	:	HK\$100
Maturity	:	Unless previously redeemed, converted or purchased and cancelled, the Issuer will redeem each outstanding Participating Creditors' Convertible Bond at 100% of its principal amount on the Maturity Date.

## LETTER FROM THE EGANA BOARD

- Interest : Zero coupon
- Status : The Participating Creditors' Convertible Bonds constitute direct, senior, unsubordinated, unconditional and (subject to negative pledge provision discussed below) unsecured obligations of the Issuer and shall at all times rank pari passu and without any preference or priority among themselves. The Participating Creditors' Convertible Bonds shall rank at all times senior to the Lifestyle Convertible Bonds. The payment obligations of the Issuer under the Participating Creditors' Convertible Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to the negative pledge provision, at all times rank at least equally with all of its other present and future senior, unsecured and unsubordinated obligations.
- Conversion : Subject to the terms of the Participating Creditors' Convertible Bonds, bondholder(s) will have the right to convert at any time on and after the Effective Date up to the close of business on the Maturity Date or if such Participating Creditors' Convertible Bonds shall have been called for redemption by the Issuer before the Maturity Date, then up to the close of business on a date no later than seven business days prior to the date fixed for redemption.

If (a) the Issuer shall default in making payment in full in respect of any Participating Creditors' Convertible Bonds which shall have been called for redemption on the date fixed for redemption thereof; (b) any Participating Creditors' Convertible Bonds have become due and payable prior to the Maturity Date by reason of the occurrence of early termination as disclosed in the paragraph headed "Termination" under the section headed "Debt Restructuring Agreement"; or (c) any Participating Creditors' Convertible Bonds are not redeemed on the Maturity Date in accordance with the terms and conditions, the conversion right attaching to such Participating Creditors' Convertible Bonds will revive and/or will continue to be exercisable up to, and including, the close of business on the date upon which the full amount of the moneys payable in respect of such Participating Creditors' Convertible Bonds have been duly received by the principal agent or the trustee and notice of such receipt has been duly given to the relevant holders of such Participating Creditors' Convertible Bonds.

Fractions of Egana Shares will not be issued on conversion and no cash adjustments will be made in respect thereof.

## LETTER FROM THE EGANA BOARD

**Conversion Price** : The initial Conversion Price is HK\$0.05 per Egana Share, determined after arm's length negotiations among the parties with reference to the financial position of the Egana Group and the amount of indebtedness waived by the Participating Creditors pursuant to the Debt Restructuring Agreement, and is the same as the subscription price of the Subscription Shares and the initial conversion price of the Lifestyle Convertible Bonds.

The Conversion Price is subject to adjustment from time to time on the occurrence of the following events that have a dilutive or concentrative effect on the value of the Egana Shares:

- (1) alteration to the nominal value of the Egana Shares as a result of consolidation, subdivision or reclassification;
- (2) capitalisation of profits or reserves;
- (3) capital distribution;
- (4) rights issues of shares or options over shares at a price which is less than 95% of the current market price;
- (5) rights issue of other securities;
- (6) issue of shares and/or grant of options, warrants or other rights to subscribe for shares at a price which is less than 95% of the current market price;
- (7) issues of other securities with rights to convert, exchange or subscribe for shares at a price which is less than 95% of the current market price;
- (8) modification of rights of conversion or exchange or subscription attached to securities that can be converted, exchanged or subscribed for shares so that the consideration per share is at a price being less than 95% of the current market price; and
- (9) other offers to shareholders.

**Conversion Shares** : The Conversion Shares shall, when issued, rank pari passu in all respects with all other issued share capital of Egana on the date of conversion including the right to all dividends or other distributions.

## LETTER FROM THE EGANA BOARD

Early redemption : At any time after the first anniversary of the Effective Date but not less than seven business days prior to the Maturity Date, the Issuer may, having given prior written notice in accordance with the terms and conditions, redeem the Participating Creditors' Convertible Bonds in whole but not in part, provided that no such redemption may be made unless the closing price of the Egana Shares for each of the 15 consecutive trading days, the last trading day of which falls on the 5th trading day immediately prior to the date upon which the early redemption notice is given, was greater than the higher of: (a) HK\$0.20; and (b) four times of the prevailing Conversion Price.

The Issuer or the Egana Group may at any time and from time to time purchase the Participating Creditors' Convertible Bonds at any price in the open market or otherwise. Such Participating Creditors' Convertible Bonds may, at the option of the Issuer or the Egana Group, be held, resold or cancelled. The Participating Creditors' Convertible Bonds so acquired, while held on behalf of the Issuer or any member of the Egana Group, shall not entitle the holders thereof to convert the Participating Creditors' Convertible Bonds in accordance with the terms and conditions nor exercise any voting rights with respect to such Participating Creditors' Convertible Bonds.

Enforcement : At any time after an early termination as disclosed in the paragraph headed "Termination" under the section headed "Debt Restructuring Agreement" above has occurred, the trustee may declare that the Participating Creditors' Convertible Bonds have become due and payable, and/or commence proceedings against the Issuer, Egana and/or any New Guarantor to enforce payment of the Participating Creditors' Convertible Bonds and to enforce the provisions of the trust deed and the Participating Creditors' Convertible Bonds Guarantee.

Transferability : The Participating Creditors' Convertible Bonds may be transferred subject to compliance of the conditions including the delivery of transfer forms to the registrar and the agents. No transfer is allowed during the transfer closed periods including (a) during the period of 7 days ending on (and including) the dates for payment of any principal; and (b) after conversion notices have been delivered with respect to such Participating Creditors' Convertible Bonds.

Listing : The Participating Creditors' Convertible Bonds will not be listed on the Stock Exchange or any other stock exchange. An application will be made by Egana to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares to be issued upon the exercise of the conversion rights attached to the Participating Creditors' Convertible Bonds.

The Conversion Shares will be issued under a specific mandate proposed to be sought from Independent Egana Shareholders at the Egana EGM.

## LETTER FROM THE EGANA BOARD

- Negative pledge : So long as any Participating Creditors' Convertible Bond remains outstanding and save as permitted under the Debt Restructuring Agreement, neither the Issuer nor Egana will create or permit to subsist, and each of the Issuer and Egana will procure that no subsidiary creates or permits to subsist, any mortgage, charge, pledge, lien or other form of encumbrance or security interest upon the whole or any part of its undertaking, assets or revenues, present or future, to secure any international investment securities (which are for the time being quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other securities market) or to secure any guarantee of or indemnity in respect of any international investment securities unless, at the same time or prior thereto, the Issuer's obligations under the Participating Creditors' Convertible Bonds and the trust deed or, as the case may be, the New Guarantors' obligations under the Participating Creditors' Convertible Bonds Guarantee (a) are secured equally and rateably therewith, or (b) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by the holders of the Participating Creditors' Convertible Bonds.
- Limited grant of rights : So long as any Participating Creditors' Convertible Bonds remain outstanding and save with the approval of the bondholders or with the approval of the trustee, Egana will procure that no securities (whether issued by Egana or any of its subsidiaries or otherwise procured by Egana or any of its subsidiaries to be issued) issued without rights to convert into or exchange or subscribe for Egana Shares shall subsequently be granted such rights at a price per Egana Share which is less than 95% of the current market price per Egana Share unless the same gives rise to an adjustment of the Conversion Price and that at no time shall there be in issue Egana Shares of differing nominal values.

Holders of the Participating Creditors' Convertible Bonds will not be entitled to receive notices of, attend or vote at any general meetings of Egana by reason only of it being a holder of such Participating Creditors' Convertible Bonds.

### **DELINQUENT DEBTS AGREEMENT**

As at 16 October 2007, the aggregate outstanding principal amount of the Delinquent Debts of the Egana Group (being doubtful receivables with potential but uncertain recoverability) was approximately HK\$2.6 billion. Provision of approximately HK\$1.6 billion was made during the financial year ended 31 May 2007, and further provision was made for the remaining amount of approximately HK\$1.0 billion during the six months ended 30 November 2007. Accordingly, full provision has been made in respect of the Delinquent Debts as at the Latest Practicable Date. It is currently contemplated that pursuant to the Delinquent Debts Agreement, the Participating Creditors and the Egana Group will share any recoveries from, and the related costs and expenses of any claims in relation to, the Delinquent Debts in the proportion 80% and 20% respectively. The amount of the Delinquent Debts recoveries to be shared by the Participating Creditors will not exceed the aggregate amount of the Participating Creditors' Restructured Debt and the amount payable to the Participating Creditors on early termination of the Debt Restructuring Agreement less an amount equal to the aggregate amounts which the Participating Creditors receive under the Debt Restructuring Agreement (other than under any relevant fee letters) and the New Guarantees and the amount of the Participating Creditors' Debt which was used to subscribe for the Participating Creditors' Convertible Bonds. Any payment received by the Participating Creditors in relation to the Delinquent Debts shall be deemed not to reduce any payment due to the Participating Creditors under the Debt Restructuring Agreement.

## LETTER FROM THE EGANA BOARD

Set out below are the principal proposed terms of the Delinquent Debts Agreement:

### **Parties**

- (a) Egana on its own behalf and on behalf of the delinquent debt creditors which are subsidiaries of the Egana Group;
- (b) the Coordinators on their own behalf and for and on behalf of the Participating Creditors; and
- (c) CITIC Ka Wah Bank Limited as the paying agent.

### **The working committee**

Within two months of the Effective Date, a working committee (comprising two representatives designated by each of Egana and the Coordinators or such other number as the parties to the Delinquent Debts Agreement may agree) will be formed whose purpose is to agree and carry out an action plan in relation to the recovery of the Delinquent Debts. Matters to be included in the action plan are (a) the determination of the most appropriate manner in which to proceed as regards each of the Delinquent Debts; (b) the fixing of a timetable in relation to any legal action in relation to the Delinquent Debts; (c) the appointment of legal or other advisers by Egana to take any agreed action in relation to any Delinquent Debts as directed by the working committee; and (d) other matters as the working committee deems appropriate or is requested to consider by either Egana or the Coordinators.

The working committee may decide and agree to any supplements, amendments and modifications to the action plan if and when appropriate in order to maximise the recovery of the Delinquent Debts, provided that they may be subject to the approval of the Participating Creditors if considered material in the opinion of the working committee.

### **Monitoring and reporting**

Egana shall appoint and at all times retain an executive officer to be the manager for the recovery of the Delinquent Debts who shall be responsible for (a) supervising, managing, monitoring and coordinating the performance by the delinquent debt creditors of their respective obligations under the Delinquent Debts Agreement and the action plan; (b) providing administrative support for the working committee and the implementation of determinations and instructions and other decisions of the working committee and the execution of all tasks entrusted by the working committee; and (c) being the primary point-of contact for the working committee for giving instructions to the delinquent debt creditors.

Egana shall provide the working committee with a performance report on or before the last day of each month (or such other period as the working committee agree) setting out (a) details of any recovered Delinquent Debts during the period since the previous performance report (if any); (b) the recovery efforts proposed to be made and the recovery expenses budgeted for the following month (or such other period) for approval by the working committee; and (c) the approved recovery expenses actually incurred by the delinquent debt creditors during the preceding calendar month (or relevant period).

## LETTER FROM THE EGANA BOARD

### **The delinquent debt creditors**

Each delinquent debt creditor agrees and covenants with the Coordinators and the paying agent that it shall:

- (a) at all times comply and act in accordance with such part of the action plan as is relevant to it and take such action as may be determined by the working committee in accordance with the action plan so as to recover such Delinquent Debts as soon as practicable and during the term of the Delinquent Debts Agreement;
- (b) at all times comply and act in accordance with instructions given by the working committee;
- (c) only instruct such legal or other advisers or agents to represent it in the enforcement of the Delinquent Debts owing to it which have been approved or designated by the working committee in writing; and
- (d) not take or permit to be taken any prejudicial action in relation to the Delinquent Debts save in accordance with the action plan or otherwise with the prior written approval of the working committee.

Each delinquent debt creditor shall keep the working committee informed of (1) the status of recoveries of the Delinquent Debts (including any actions taken against, and any negotiations and discussions with, the relevant Delinquent debtors and their representatives); and (2) any matters which may have a material adverse effect on: (i) the delinquent debt creditor's ability to perform its obligations under the Delinquent Debts Agreement; or (ii) the financial condition of any delinquent debtor or its ability to repay the Delinquent Debts and shall provide the working committee with (1) all financial or other information relating to the Delinquent Debts or delinquent debtors; and (2) all relevant information and documents arising from any action taken against delinquent debtors or in relation to the Delinquent Debts upon request by the working committee from time to time.

Upon recovery of any Delinquent Debts, the relevant delinquent debt creditor shall pay the amount so recovered to the paying agent no later than 11:00 a.m. (Hong Kong time) on the following business day.

### **Reimbursement of approved recovery expenses**

Egana (acting for the delinquent debt creditors) is entitled to be reimbursed from the recovery proceeds from the Delinquent Debts (the "Recovery Proceeds") the full amount of the recovery expenses actually incurred by the delinquent debt creditors provided such expenses have been set out in the abovementioned recovery expenses budget and approved by the working committee. If the Recovery Proceeds allocated for such purpose are not sufficient to cover the full amount of such expenses, the unpaid portion would be rolled over until sufficient Recovery Proceeds have been received to meet those expenses. Such amount as the working committee determines (following receipt of full particulars from Egana) to



## LETTER FROM THE EGANA BOARD

be reasonable expenses incurred by the delinquent debt creditors prior to the date of the Delinquent Debts Agreement in relation to the assessment of their rights in respect of the Delinquent Debts shall be deemed to be recovery expenses and shall be payable in accordance with the Delinquent Debts Agreement.

### Allocation of the Recovery Proceeds

The Recovery Proceeds received by the paying agent will be applied in the following manner and order:

- (a) for payment in full of any outstanding approved expenses incurred by the delinquent debt creditors;
- (b) for creating and maintaining a reserve of not less than HK\$1,000,000 for the purpose of covering future approved expenses;
- (c)
  - (i) as to 80% of any remaining amount to the Participating Creditors in the same proportions as they are entitled to receive the Participating Creditors' Restructured Debt under the Debt Restructuring Agreement. Such amount will not exceed the aggregate amount of the Participating Creditors' Restructured Debt and the amount payable to the Participating Creditors on early termination of the Debt Restructuring Agreement less an amount equal to the aggregate amounts received by the Participating Creditors under the Debt Restructuring Agreement (other than under any relevant fee letters) and the New Guarantees and the amount of the Participating Creditors' Debt which was used to subscribe for the Participating Creditors' Convertible Bonds (the "Maximum Amount"). It is a condition that the paying agent may first deduct any cost, charges and expenses (including legal and other fees) incurred by the Coordinators and the paying agent under the Delinquent Debts Agreement although any such deduction will not be taken into account in determining whether payments to the Participating Creditors have reached the Maximum Amount; and
  - (ii) as to 20% of such remaining amount to Egana for distribution to the delinquent debt creditors; and
- (d) as to the remaining balance (if any) to Egana.

Upon termination or the expiration of the Delinquent Debts Agreement, all amounts held by the paying agent as a reserve for covering future approved expenses shall be applied in the same payment order above (ignoring paragraph (b)) or as the parties might otherwise agree. If following such application, there are any outstanding recovery expenses, such amounts shall be waived with immediate effect.

## LETTER FROM THE EGANA BOARD

### Assignment of the Delinquent Debts

Upon request of the Coordinators at any time after early termination of the Debt Restructuring Agreement, each delinquent debt creditor shall, at the expense of the delinquent debt creditor, assign, for no or nominal consideration, all its interests in the Delinquent Debts to such person(s) as may be designated by the Coordinators. Following such assignment, the Delinquent Debts Agreement (with the exception of certain clauses) shall cease to have any further force or effect and:

- (a) the working committee shall be dissolved and Egana and each delinquent debt creditor shall within seven days of any request deliver to the Coordinators all information and documents it may hold in relation to the Delinquent Debts;
- (b) any collections subsequently made and received by the delinquent debt creditors, the Coordinators or the assignee in relation to the assigned Delinquent Debts shall be paid over to the paying agent for application in accordance with the paragraph headed "Allocation of the Recovery Proceeds" above; and
- (c) the Coordinators and the assignee shall be entitled to be reimbursed: (i) from the Recovery Proceeds, 80% of all costs, charges and expenses reasonably incurred by them for the recovery of the assigned Delinquent Debts; and (ii) 20% of such all costs, charges and expenses incurred (which sum shall be deductible by the paying agent from any amount payable to Egana pursuant to clause (c) and (d) under the paragraph headed "Allocation of the Recovery Proceeds" above.

### Term and termination

The Delinquent Debts Agreement shall commence on the Effective Date after all of the conditions precedent under the Debt Restructuring Agreement have been satisfied or waived, and shall continue to have full force and effect until the working committee agree in writing that there is no real prospect of any further recoveries of the Delinquent Debts or that the cost of pursuing further recoveries of the Delinquent Debts would not justify taking any further action against the Delinquent Debts. Notwithstanding the foregoing, the Delinquent Debts Agreement may be terminated (a) at any time by the Coordinators giving to Egana and the paying agent not less than 30 days' written notice; or (b) with immediate effect by any party by giving written notice to the other parties at any time after the paying agent has certified in writing that the Recovery Proceeds received by it has reached the Maximum Amount. If after the expiration or termination of the Delinquent Debts Agreement, the paying agent or any Participating Creditor is obliged, by reason of a dispute in relation to any Delinquent Debts, to repay any amount to any delinquent debtor, the relevant delinquent debt creditor shall be liable to pay an equivalent amount to the paying agent or such Participating Creditor as the case may be. Following termination of the Delinquent Debts Agreement, the Delinquent Debts Agreement (with the exception of certain clauses) shall cease to have any further force or effect.

# LETTER FROM THE EGANA BOARD

## CHANGE OF SHAREHOLDING STRUCTURE OF EGANA

The following table illustrates the shareholding structure of Egana (1) as at the Latest Practicable Date; (2) upon issue and allotment of the Subscription Shares; (3) upon full conversion of the Participating Creditors' Convertible Bonds; (4) upon full conversion of the Participating Creditors' Convertible Bonds and after conversion of the Lifestyle Convertible Bonds to the extent that 25% of the Egana Shares are held in public hands; and (5) upon full conversion of the Lifestyle Convertible Bonds.

	As at the Latest Practicable Date		After the issue of the Subscription Shares (but before full conversion of the Lifestyle Convertible Bonds and the Participating Creditors' Convertible Bonds)		After the issue of the Subscription Shares and full conversion of the Participating Creditors' Convertible Bonds but before full conversion of the Lifestyle Convertible Bonds		After the issue of the Subscription Shares and full conversion of the Participating Creditors' Convertible Bonds and after conversion of the Lifestyle Convertible Bonds to the extent that 25% of the Egana Shares are held in public hands		After the issue of the Subscription Shares, and full conversion of the Participating Creditors' Convertible Bonds and the Lifestyle Convertible Bonds (Note 3)	
	No. of Egana Shares	Approximate %	No. of Egana Shares	Approximate %	No. of Egana Shares	Approximate %	No. of Egana Shares	Approximate %	No. of Egana Shares	Approximate %
Egana Directors:										
Peter LEE	8,811,375	0.60	8,811,375	0.15	8,811,375	0.12	8,811,375	0.08	8,811,375	0.03
Michael POIX	2,923,500	0.20	2,923,500	0.05	2,923,500	0.04	2,923,500	0.02	2,923,500	0.01
Juergen HOLZSCHUH	3,300	0.00	3,300	0.00	3,300	0.00	3,300	0.00	3,300	0.00
		(Note 5)		(Note 5)		(Note 5)		(Note 5)		(Note 5)
Professor Udo GLITTENBERG	116,751	0.01	116,751	0.00	116,751	0.00	116,751	0.00	116,751	0.00
		(Note 5)		(Note 5)		(Note 5)		(Note 5)		(Note 5)
Dr Goetz WESTERMEYER	291,877	0.02	291,877	0.01	291,877	0.01	291,877	0.00	291,877	0.00
								(Note 5)		(Note 5)
Lifestyle and its Concert Parties	-	-	4,342,642,652	74.79	4,342,642,652	58.63	9,143,417,360	74.90	24,119,999,992	88.73
	12,146,803	0.83	4,354,789,455	75.00	4,354,789,455	58.80	9,155,564,163	75.00	24,132,146,795	88.77
Peninsula International Limited (Note 1)	485,388,326	33.15	485,388,326	8.36	485,388,326	6.55	485,388,326	3.98	485,388,326	1.79
Participating Creditors (Note 2)	7,342,000	0.50	7,342,000	0.12	1,607,342,000	21.70	1,607,342,000	13.16	1,607,342,000	5.91
	492,730,326	33.65	492,730,326	8.48	2,092,730,326	28.25	2,092,730,326	17.14	2,092,730,326	7.70
Other public	959,124,395	65.52	959,124,395	16.52	959,124,395	12.95	959,124,395	7.86	959,124,395	3.53
Total public (Note 4)	966,466,395	66.02	1,451,854,721	25.00	3,051,854,721	41.20	3,051,854,721	25.00	3,051,854,721	11.23
	1,464,001,524	100.00	5,806,644,176	100.00	7,406,644,176	100.00	12,207,418,884	100.00	27,184,001,516	100.00

### Notes:

- These shares were registered in the name of Peninsula International Limited and its nominee which held the same as nominee for The Captive Insurance Trust, a discretionary trust whose prospective beneficiaries included the deceased Mr. Hans-Joerg SEEBERGER's family. Although Joint Asset, a wholly-owned subsidiary of Peninsula International Limited, has pledged its Egana Shares to Billion Empire Limited, a wholly-owned subsidiary of Lifestyle, for the Bridging Loan, Peninsula International Limited will be considered to be part of the public float of the issued share capital of Egana after the issue of the Subscription Shares because (1) the pledged Egana Shares will be released when Lifestyle's subscription of the Subscription Shares takes place; and (2) immediately upon completion of Lifestyle's subscription of the Subscription Shares, the Egana Shares held by Peninsula International Limited will be diluted to less than 10% of the issued share capital of Egana at approximately 8.36%.

## LETTER FROM THE EGANA BOARD

2. As at the Latest Practicable Date, two Participating Creditors had beneficial interests in an aggregate of 7,342,000 Egana Shares. On the basis of the issued share capital of Egana upon completion of the Restructuring Proposal and before taking account of any conversion of the Lifestyle Convertible Bonds, the conversion by the largest Participating Creditor of its holding in the Participating Creditors' Convertible Bonds (but not the other Participating Creditors) will result in the issue of new shares by Egana, representing no more than 3.8% of such issued share capital (or approximately 3.6% of the enlarged issued share capital taking into account such issue of new shares). Moreover, none of the individual Participating Creditor holds 10% or more of the voting rights of the enlarged issued share capital upon the full conversion of the Participating Creditors' Convertible Bonds. Upon Lifestyle's full conversion of the Lifestyle Convertible Bonds, the Participating Creditors' shareholdings will be diluted to approximately 5.91% of the enlarged issued share capital.
3. It is for the purpose of illustration only. There will be less than 25% of the issued Egana Shares in the public hands immediately after the issue of the Subscription Shares and full conversion of the Lifestyle Convertible Bonds and the Participating Creditors' Convertible Bonds. It is a term and condition that the bondholder(s) shall exercise the conversion rights attaching to the Lifestyle Convertible Bonds only if it is confirmed by Egana that the allotment and issue of the Conversion Shares under the Lifestyle Convertible Bonds to the bondholder(s) pursuant to an exercise of the conversion right attaching to the Lifestyle Convertible Bonds will not cause Egana to be in breach of the minimum public float requirement stipulated under Rule 8.08 of the Listing Rules immediately upon the allotment and issue of such Egana Shares.
4. "Total public" includes the Egana Shares held by the Participating Creditors, Peninsula International Limited (only after completion of the issue of the Subscription Shares) and other public.
5. The interests are negligible.

There are no other outstanding options, warrants, derivatives and other securities convertible or exchangeable into Egana Shares or any other derivatives as at the Latest Practicable Date.

### **EQUITY RAISING ACTIVITIES FOR THE PAST TWELVE MONTHS**

No equity fund raising activities have been conducted by Egana for the past twelve months from the date of the Announcement.

### **INFORMATION ON THE SUBSCRIBER**

Each of the Equity Subscriber and the Bond Subscriber is a company incorporated in British Virgin Islands with limited liability and is wholly-owned by Lifestyle. The principal business of each of the Equity Subscriber and the Bond Subscriber is to be an investment vehicle. They have not undertaken any business activities other than the entering into of the Restructuring Proposal.

The principal activity of Lifestyle is investment holding and Lifestyle's subsidiaries' principal business activities are the operation of "lifestyle" department stores and property holding.

## LETTER FROM THE EGANA BOARD

### INFORMATION ON EGANA

Egana and its subsidiaries are principally engaged in (1) design, assembly, manufacture and distribution of timepieces, leather and lifestyle products; (2) licensing or assignment of brandnames or trademarks to third parties; (3) trading of timepiece components, jewellery and consumer electronic products; (4) distribution of branded timepieces, leather and lifestyle products through franchisees under the franchising arrangement; and (5) design, manufacture, distribution and trading of jewellery and licensing.

According to the audited accounts of the Egana Group prepared in accordance with accounting principles generally accepted in Hong Kong, for the year ended 31 May 2006, the Egana Group recorded audited profit before, and after, taxation, minority interests and extraordinary items of approximately HK\$345.1 million and HK\$305.0 million respectively. For the year ended 31 May 2007, the Egana Group recorded audited loss before, and after, taxation, minority interests and extraordinary items of approximately HK\$1,820.4 million and HK\$1,959.4 million respectively. Unaudited loss before, and after, taxation, minority interests and extraordinary items of approximately HK\$1,243.3 million and HK\$1,263.5 million were recorded by the Egana Group respectively for the six months ended 30 November 2007. The unaudited consolidated net deficit of the Egana Group attributable to Egana Shareholders as at 30 November 2007 was approximately HK\$1,038.6 million.

### REASONS FOR THE RESTRUCTURING PROPOSAL

As referred to in previous announcements made by Egana and in the Egana Group's 2006/2007 annual report, the Egana Group has faced severe financial difficulties since July 2007 principally as a result of a largely self-contained area of the Egana Group's trading operations (as identified in the KPMG review) which has been discontinued during the six months ended 30 November 2007. The Egana Group suffered severe financial difficulties. For the year ended 31 May 2007 and the six months ended 30 November 2007, the Egana Group suffered losses attributable to Egana Shareholders of approximately HK\$1,959.4 million and HK\$1.3 billion respectively. The substantial loss attributable to Egana Shareholders for the year ended 31 May 2007 was primarily due to provision of approximately HK\$1.6 billion for doubtful accounts and other receivables and promissory notes, and impairment loss on goodwill and trademarks written off in aggregate of approximately HK\$211.8 million. The significant loss attributable to Egana Shareholders for the six months ended 30 November 2007 was mainly as a result of (1) the additional impairment losses on doubtful receivables in the amount of approximately HK\$1.0 billion made for the period; (2) the net loss on disposal of non-core available-for-sale securities and investments of approximately HK\$82.9 million; (3) the legal and professional fees and other expenses in the amount of approximately HK\$71.4 million mainly incurred in relation to the financial restructuring of the Egana Group; and (4) the relocation expenses and associated restructuring costs for (a) the closure and relocation of the separate German office of one of the Egana Group's brands; (b) the closure of certain business units of jewellery and leather divisions; and (c) the closing of consumer electronics sales company and the mass market business in timepieces in an aggregate amount of approximately HK\$66.4 million. Based on the unaudited financial statements for the six months ended 30 November 2007, the Egana Group had net current liabilities of approximately HK\$2.2 billion as at 30 November 2007. The Egana Group had bank and other borrowings of approximately HK\$4.0 billion as at 30 November 2007, all of which were due within one year or repayable on

## LETTER FROM THE EGANA BOARD

demand. In Egana's annual report for the year ended 31 May 2007, Egana's auditors stated that they were unable to form an opinion as to whether Egana's accounts gave a true and fair view of the state of affairs of Egana and of the Egana Group as at 31 May 2007 and of the Egana Group's loss and cash flow for the year then ended because of the scope limitation on material sales transactions and receivable provision, and the fundamental uncertainty relating to Egana's and Egana Group's ability to continue as a going concern.

In view of the severe financial difficulties of the Egana Group, certain bank creditors of the Egana Group threatened to (and in some cases did) bring legal proceedings or served statutory demands against the Egana Group for the repayment of outstanding debts and certain credit insurers and debt factoring banks withdrew the facilities they had previously been providing to the Egana Group. These actions had significant adverse effects on the Egana Group's cash flow and ongoing trading business as a whole. Since submission by Lifestyle of a non-binding term sheet to Egana, the Lifestyle Group has made working capital available to the Egana Group for its business operation through the provision of the Bridging Loan. As a result of this additional liquidity, coupled with clear evidence of a restructuring proposal being made by Lifestyle, the proceedings and demands against the Egana Group were withdrawn and the main factoring bank of the Egana Group restored the factoring facilities. Bank and other creditors of the Egana Group have subsequently exercised forbearance pending the implementation of the Restructuring Proposal.

The primary objectives of the Restructuring Proposal are to (1) inject new capital into Egana for (a) settling the Bridging Loan; and (b) reducing the level of the Participating Creditors' Debt; and (2) strengthen the financial position of the Egana Group. As shown in the unaudited pro forma financial information of the Egana Group contained in appendix II to this circular, on the basis that the Restructuring Proposal had been completed on 30 November 2007, the unaudited pro forma consolidated net current assets and net assets of the Egana Group attributable to the Egana Shareholders would be approximately HK\$2,145.1 million and HK\$1,076.3 million respectively. This illustrates the improvement in the Egana Group's financial position compared to the unaudited net current liabilities and net deficits attributable to the Egana Shareholders of approximately HK\$2,192.9 million and HK\$1,038.6 million respectively as at 30 November 2007. The Restructuring Proposal also results in a reduction of the indebtedness owed to the Participating Creditors. The Egana Group may recognise a one-off income (the reduction of indebtedness as a result of the amount of debt waived pursuant to the Debt Restructuring Agreement less the expenses incurred for the Restructuring Proposal) after Completion. Based on (1) the amount due to the Participating Creditors and the Fully Secured Creditors of approximately HK\$3,735.2 million as at 30 November 2007; (2) the accrued interests in respect of these amount due of approximately HK\$36.8 million as at 30 November 2007; and (3) the settlement amount with the Participating Creditors and the Fully Secured Creditors of HK\$2.0 billion (being the sum of HK\$1,920 million for the three installments and HK\$80 million for the Participating Creditors' Convertible Bonds) (excluding the interest for the Participating Creditors' Restructured Debt and the recoveries under the Delinquent Debts Agreement), such income (before taking into account the expenses incurred for the Restructuring Proposal) amounts to approximately HK\$1.77 billion. Assuming Completion takes place during the financial year ending 31 May 2009, such income will be reflected in the financial statement of the Egana Group in that financial year. The Egana Board considers that the successful implementation of the Restructuring Proposal is essential for the Egana Group to be able to continue to operate as a going concern. The Egana Board also believes that the Egana Group can benefit from having Lifestyle as its controlling shareholder, such as by leveraging on Lifestyle's experience and business network to develop further the Egana Group's business in the PRC.

## LETTER FROM THE EGANA BOARD

The Egana Directors (including the independent non-executive Egana Directors) are of the view that the terms of the Restructuring Proposal are fair and reasonable, and in the interests of Egana and Egana Shareholders as a whole. In the circumstance, the Egana Board has decided to submit the Restructuring Proposal to Independent Egana Shareholders for their consideration and approval.

### USE OF PROCEEDS

The estimated net proceeds from the Subscription of approximately HK\$1,206.0 million will be applied by Egana for the following purposes:

- (1) HK\$300.0 million for the settlement of the Bridging Loan;
- (2) HK\$640.0 million for the first instalment pursuant to the Debt Restructuring Agreement; and
- (3) the remaining balance of approximately HK\$266.0 million for working capital of the Egana Group.

Following settlement of the Bridging Loan in full, all the security for the Bridging Loan will be released, including the Egana Shares pledged by Joint Asset, a wholly-owned subsidiary of Peninsula International Limited.

### FUTURE INTENTIONS OF LIFESTYLE REGARDING THE EGANA GROUP

At present, Lifestyle is a Hong-Kong based retail operator that specialises in the operation of high-end department stores through its two retailer brand names, SOGO and Jiuguang. Following the Completion, Lifestyle intends that Egana will continue its existing business.

Lifestyle intends to continue Egana's existing principal business and will conduct a more detailed review of the financial position and the operations of the Egana Group with a view to finalise a corporate strategy upon Completion. Although Lifestyle does not have any immediate plan for redeployment of the material fixed assets of Egana, Lifestyle is considering restructuring Egana's existing business. Lifestyle considers it commercially justifiable and consistent with its expansion philosophy to make investment in the Egana Group, in particular, in its existing principal business as set out in the section headed "Information on Egana".

Lifestyle will conduct a thorough appraisal on the performance of the employees of the Egana Group upon Completion. Subject to such performance reviews, Lifestyle intends to continue the employment of the employees for the continuity of Egana Group's existing business. Additional directors and senior management will be appointed to the Egana Group when appropriate. However, during the restructuring of the Egana Group, the employment of certain employees of Egana Group may be reconsidered.

There is no intention of the parties that any of the existing Egana Directors will resign after the completion of the Subscription. The Chairman will be appointed by the Egana Board upon Completion and Lifestyle will nominate at least one executive directors to the Egana Board.

## LETTER FROM THE EGANA BOARD

### MAINTENANCE OF THE LISTING STATUS OF EGANA

Immediately upon the issue of the Subscription Shares but before accounting for the Conversion Shares, and assuming that there have been no other changes in the issued share capital of Egana since the Latest Practicable Date, Lifestyle and its Concert Parties will be interested in 4,342,642,652 Egana Shares, representing approximately 74.8% of the enlarged issued share capital of Egana and 1,451,854,721 Egana Shares, representing approximately 25.0% of the enlarged issued share capital of Egana will be held by public. Accordingly, in the absence of other changes in shareholding in Egana since the Latest Practicable Date, Egana will then become a subsidiary of Lifestyle and the public float of Egana is expected to be maintained.

It is the intention of Lifestyle to maintain the listing status of Egana on the Stock Exchange upon Completion and to ensure that at least 25% or above of the issued Egana Shares is in public hands. Egana is required to maintain sufficient public float upon Completion.

### DILUTION EFFECT ON EGANA SHAREHOLDERS

In view of the future dilution to existing Egana Shareholders on the exercise of the conversion rights attached to the Lifestyle Convertible Bonds and the Participating Creditors' Convertible Bonds, Egana will keep Egana Shareholders informed of the level of dilution and details of conversion as follows:

- (1) Egana will make a monthly announcement (the "Monthly Announcement") after the issue of the Lifestyle Convertible Bonds and the Participating Creditors' Convertible Bonds. Such announcement will be made on or before the fifth business day following the end of each calendar month and will include (i) the public float of Egana after the conversion of the Lifestyle Convertible Bonds and the Participating Creditors' Convertible Bonds; and (ii) the following details in a table form:
  - (a) whether there is any conversion of the Lifestyle Convertible Bonds and the Participating Creditors' Convertible Bonds during the relevant month. If there is a conversion, details thereof including the conversion date, number of new Egana Shares issued, conversion price for each conversion. If there is no conversion during the relevant month, a negative statement to that effect;
  - (b) the number of outstanding Lifestyle Convertible Bonds and Participating Creditors' Convertible Bonds after conversion, if any;
  - (c) the total number of new Egana Shares issued pursuant to other transactions during the relevant month, including new Egana Shares issued pursuant to exercise of options under any share option scheme(s) of Egana; and
  - (d) the total issued share capital of Egana as at the commencement and the last day of the relevant month;



## LETTER FROM THE EGANA BOARD

- (2) in addition to the Monthly Announcement, if the cumulative amount of new Egana Shares issued pursuant to the conversion of the Lifestyle Convertible Bonds and the Participating Creditors' Convertible Bonds reaches 5% of the issued share capital of Egana as disclosed in the last Monthly Announcement or any subsequent announcement made by Egana in respect of the Lifestyle Convertible Bonds and the Participating Creditors' Convertible Bonds (as the case may be) (and thereafter in a multiple of such 5% threshold), Egana will make an announcement on the website of the Stock Exchange including details as stated in (1) above for the period commencing from the date of the last Monthly Announcement or any subsequent announcement in respect of the Lifestyle Convertible Bonds and the Participating Creditors' Convertible Bonds (as the case may be) up to the date on which the total amount of Egana Shares issued pursuant to the conversion amounted to 5% of the issued share capital of Egana as disclosed in the last Monthly Announcement or any subsequent announcement made by Egana in respect of the Lifestyle Convertible Bonds and the Participating Creditors' Convertible Bonds (as the case may be); and
- (3) in addition to the Monthly Announcement, if Egana forms the view that any issue of the Conversion Shares will trigger the disclosure requirements under Rule 13.09 of the Listing Rules, then Egana is obliged to make such disclosures regardless of the issue of any announcements in relation to the Lifestyle Convertible Bonds and the Participating Creditors' Convertible Bonds as mentioned in (1) and (2) above.

### WHITEWASH WAIVER AND SPECIAL DEAL REPAYMENT

As at the Latest Practicable Date, Lifestyle and its Concert Parties did not have any shareholding in Egana. As set out in the shareholding table under the section headed "Change of shareholding structure of Egana" above, immediately upon completion of the Subscription but before accounting for the Conversion Shares, and assuming that there have been no other changes in the issued share capital of Egana since the Latest Practicable Date, Lifestyle and its Concert Parties will be interested in an aggregate of approximately 74.8% of the enlarged issued share capital of Egana. Accordingly, Lifestyle and its Concert Parties will be required to make an unconditional mandatory general offer for all the securities of Egana (other than those already owned or agreed to be acquired by Lifestyle and its Concert Parties).

Lifestyle has applied to the Executive for the Whitewash Waiver. The Executive has indicated that he will grant the Whitewash Waiver, the granting of which will be subject to, among other things, (1) approval of the Independent Egana Shareholders in respect of the Whitewash Waiver at the Egana EGM where voting on the relevant resolution(s) shall be taken by poll; (2) Lifestyle and its Concert Parties not having acquired any voting rights of Egana in the six months prior to the date of the Announcement but subsequent to negotiations, discussions or the reaching of understanding or agreements with the Egana Directors in relation to the Subscription under the Subscription Agreement; and (3) Lifestyle and its Concert Parties not having any acquisitions or disposals of voting rights of Egana between the date of the Announcement and completion of the Subscription unless with prior consent of the Executive.

Should Lifestyle and its Concert Parties hold more than 50% of the enlarged issued share capital of Egana upon completion of the Subscription, they may increase their shareholding in Egana further without triggering any further general offer obligation under the Takeovers Code.

## LETTER FROM THE EGANA BOARD

It is one of the conditions precedent of the Subscription Agreement that the Whitewash Waiver has to be obtained. If the Whitewash Waiver is not obtained for any reason, the Subscription Agreement will not become unconditional, unless Lifestyle agrees to waive the condition on the Whitewash Waiver. Should Lifestyle waive the condition on the Whitewash Waiver and elect to proceed to Completion, Lifestyle will comply with all the relevant requirements of the Takeovers Code including but not limited to the making of a general offer and further announcement. Completion of the Debt Restructuring Agreement will not take place if the Subscription Agreement does not become unconditional.

After reviewing Egana's register of members and the CCASS participating shareholding report and based on confirmations received from the Participating Creditors, two Special Deal Participating Creditors have beneficial interests in 7,342,000 Egana Shares (representing approximately 0.5% of the issued share capital of Egana as at the Latest Practicable Date). The use of funds from the Restructuring Proposal to repay the loan to the Special Deal Participating Creditors constitutes a special deal under Note 5 of Rule 25 of the Takeovers Code and hence requires consent from the Executive. An application will be made to the Executive for the Special Deal Consent which, if given, will be subject to (a) Access Capital stating in its opinion that the terms of the Special Deal Repayment are fair and reasonable; and (b) the Special Deal Repayment being approved by the Independent Egana Shareholders by way of a poll at the Egana EGM. The Executive would normally grant consent if the repayment is on arm's length and on normal commercial terms. The Egana Directors consider that the repayment is on arm's length and on normal commercial terms because all Participating Creditors have the same hair-cut on their indebtedness. Following the review of Egana's register of members and the CCASS participating shareholding report, save for the two Special Deal Participating Creditors, Egana does not identify any of the Participating Creditors and the Non-Participating Creditors (including the Fully Secured Creditors) having Egana Shares. Both Egana and Lifestyle confirm that they are not aware of any of the Non-Participating Creditors holding Egana Shares as at the Latest Practicable Date.

The Restructuring Proposal, including the Subscription Agreement, the Debt Restructuring Agreement, the Participating Creditors' CB Subscription Agreement, the Delinquent Debts Agreement, the transactions contemplated thereunder, the Whitewash Waiver and the Special Deal Repayment are subject to approval by Independent Egana Shareholders (who are permitted to vote under the Listing Rules and the Takeovers Code) at the Egana EGM. Lifestyle, its Concert Parties and their respective associates together with those who are interested in, or involved in, the Restructuring Proposal are required to abstain from voting on the Restructuring Proposal, the Whitewash Waiver and the Special Deal Repayment at the Egana EGM. Since Joint Asset, a wholly-owned subsidiary of Peninsula International Limited, has pledged its Egana Shares to Billion Empire Limited, a wholly-owned subsidiary of Lifestyle, for the Bridging Loan, Peninsula International Limited is also required to abstain from voting on the Restructuring Proposal, the Whitewash Waiver and the Special Deal Repayment at the Egana EGM. All executive Egana Directors are involved in negotiations of the Restructuring Proposal but not independent non-executive Egana Directors. Therefore, all executive Egana Directors are required to abstain from voting on the Restructuring Proposal, the Whitewash Waiver and the Special Deal Repayment at the Egana EGM. According to the register of members of Egana, executive Egana Directors, namely Messrs Peter Ka Yue Lee, Michael Richard Poix and Juergen Ludwig Holzschuh, held 11,738,175 Egana Shares as at the Latest Practicable Date. The Special Deal Participating Creditors and their respective associates are required to abstain from voting on the Restructuring Proposal, the Whitewash Waiver and the Special Deal Repayment at the Egana EGM.

## LETTER FROM THE EGANA BOARD

### THE LIFESTYLE'S DEALING AND INTERESTS IN SECURITIES OF EGANA

Neither Lifestyle nor any of its Concert Parties was interested in any Egana Shares, warrants, options, derivatives or securities convertible into Egana Shares as at the date of the Announcement and as at the Latest Practicable Date nor had they dealt in any Egana Shares, warrants, options, derivatives or securities convertible into Egana Shares during the period commencing on the date falling six months prior to 2 October 2007 and up to the Latest Practicable Date. Lifestyle and its Concert Parties have undertaken that they will not deal in the Egana Shares, warrants, options, derivatives or securities convertible into Egana Shares during the period up to and including the date of completion of the Subscription.

### CAPITAL INCREASE

As at the Latest Practicable Date, the authorised share capital of Egana was HK\$20,000,000 comprising 2,000,000,000 Egana New Shares, of which 1,464,001,524 Egana New Shares have been issued and are fully paid. In order to facilitate the Restructuring Proposal and provide flexibility for equity fund raising in the future, Egana proposes to increase its authorised share capital from HK\$20,000,000 to HK\$500,000,000 by the creation of an additional 48,000,000,000 Egana New Shares.

The Capital Increase will be subject to the approval by the Egana Shareholders at the Egana EGM.

### GENERAL

At the request of Egana, trading in the Egana Shares was suspended with effect from 9:30 a.m. on 12 September 2007. In view of its financial difficulties, Egana has been involved in intensive negotiations with its financial and trade creditors and other stakeholders in an effort to preserve the ability of the Egana Group to trade as a going concern, including the implementation of the Restructuring Proposal which requires extensive time to arrive at the current stage. Trading in the Egana Shares has remained suspended during this period. In a letter dated 2 January 2008 from the Stock Exchange to Egana, it was informed of the requirements of the Stock Exchange in relation to the application for resumption of trading in the Egana Shares. Egana has made a submission on 23 May 2008 to the Stock Exchange which replied to Egana on 5 June 2008. Egana is now taking steps to comply with the requirements and has to address to the satisfaction of the Stock Exchange the issues relating to, among other things, (a) the reasons for the past irregular transactions of Egana and the impacts on Egana's operations and financial position; (b) that Egana has adequate and effective internal control; and (c) that the Egana Group will have sufficient working capital for its operation and to fulfil its financial obligations for at least 12 months from the expected date of resumption of trading in the Egana Shares. Egana is expected to demonstrate to the Stock Exchange that the above issues are satisfactorily addressed. **The release of the Announcement and the despatch of this circular do not indicate that the resumption of trading in the Egana Shares has been or will be approved by the Stock Exchange.** Trading in the Egana Shares will remain suspended until further notice. **Shareholders and investors of Egana are advised to exercise caution when dealing in securities of Egana.**

## LETTER FROM THE EGANA BOARD

**The release of the Announcement and the despatch of this circular do not indicate that the Restructuring Proposal will be successfully implemented and completed as the conditions precedent to the Debt Restructuring Agreement, the Subscription Agreement, the Participating Creditors' CB Subscription Agreement and the Delinquent Debts Agreement may or may not be fulfilled or otherwise waived.**

### **EGANA EGM**

A notice of the Egana EGM to be held at Gloucester Room II, 3/F, The Excelsior, Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong on 29 July 2008 at 11:30 a.m. is set out on pages EGM-1 to EGM-6 of this circular for the purpose to consider and, if thought fit, to approve the Capital Increase, the Restructuring Proposal, the Whitewash Waiver and the Special Deal Repayment.

There is a form of proxy for use at the Egana EGM accompanying this circular. Whether or not you are able to attend the Egana EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return it to the principal place of business of Egana in Hong Kong at Block C, 11th Floor, Hong Kong Industrial Centre, 489-491 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong as soon as possible and in any event not later than forty-eight (48) hours before the time appointed for the holding of the Egana EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Egana EGM or any adjournment thereof should you so wish.

### **PROCEDURE AND RIGHT FOR DEMANDING A POLL**

Pursuant to article 63(A) of the articles of association of Egana (as amended), a resolution put to the vote at a general meeting shall be decided on a show of hands unless voting by way of a poll is required by the Listing Rules or a poll is duly demanded before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll. Subject to the provisions of the Cayman Islands Companies Law, a poll may be demanded by:

- (a) the chairman of the meeting; or
- (b) at least five members present in person or by proxy and entitled to vote; or
- (c) any member or members present in person or by proxy and representing in aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or
- (d) any member or members 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 aggregate equal not less than one-tenth of the total sum paid up on all shares conferring that right.

## LETTER FROM THE EGANA BOARD

### RECOMMENDATION

The Independent Egana Board Committee, after taking into account the advice from Access Capital, considers that the terms and conditions of the Restructuring Proposal and the Special Deal Repayment are fair and reasonable, and both the Restructuring Proposal, the Whitewash Waiver and the Special Deal Repayment are in the interests of Egana and the Independent Egana Shareholders as a whole and accordingly recommends the Independent Egana Shareholders to vote in favour of the ordinary resolutions to be proposed at the Egana EGM to approve the Restructuring Proposal, the Whitewash Waiver and the Special Deal Repayment.

The Egana Board considers that the Capital Increase is fair and reasonable and is in the interests of Egana and the Egana Shareholders as a whole and accordingly recommends the Egana Shareholders to vote in favour of the ordinary resolution to be proposed at the Egana EGM to approve the Capital Increase.

The text of the letter from the Independent Egana Board Committee is set out on page 52 of this circular. The text of the letter from Access Capital containing its advice to the Independent Egana Board Committee and the Independent Egana Shareholders and the principal factors and reasons which it has taken into account in arriving at its advice is set out on pages 53 to 73 of this circular.

### FURTHER INFORMATION

Your attention is drawn to the text of the letters from the Independent Egana Board Committee and Access Capital respectively containing their opinion regarding the Restructuring Proposal, the Whitewash and the Special Deal Repayment.

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,  
For and on behalf of the Board of  
**EganaGoldpfeil (Holdings) Limited**  
**Michael Richard POIX**  
*Chief Executive Officer*

## LETTER FROM THE INDEPENDENT EGANA BOARD COMMITTEE

*The following is the full text of a letter from the Independent Egana Board Committee setting out its recommendation to the Independent Egana Shareholders in relation to the Restructuring Proposal, the Whitewash Waiver and the Special Deal Repayment:*

# EGANA GOLDPFEIL

(HOLDINGS) LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 48)**

30 June 2008

*To the Independent Egana Shareholders*

Dear Sir or Madam,

**DEBT RESTRUCTURING,  
ISSUE OF NEW SHARES AND CONVERTIBLE BONDS  
AND  
APPLICATION FOR WHITEWASH WAIVER AND  
SPECIAL DEAL REPAYMENT**

We have been appointed as members of the Independent Egana Board Committee to advise you in connection with the Restructuring Proposal, the Whitewash Waiver and the Special Deal Repayment, details of which are set out in the Letter from the Egana Board contained in the circular of Egana dated 30 June 2008 (the “Circular”). Terms defined in the Circular shall have the same meanings herein, unless the context otherwise requires.

Having taken into account the advice and recommendation of Access Capital as set out on pages 53 to 73 of the Circular, we are of the opinion that the terms and conditions of the Restructuring Proposal and the Special Deal Repayment are fair and reasonable so far as the Independent Egana Shareholders are concerned, and both the Restructuring Proposal, the Whitewash Waiver and the Special Deal Repayment are in the interests of Egana and the Independent Egana Shareholders as a whole. We therefore recommend the Independent Egana Shareholders to vote in favour of the ordinary resolutions to be proposed at the Egana EGM to approve the Restructuring Proposal, the Whitewash Waiver and the Special Deal Repayment.

Yours faithfully,

**Professor Udo GLITTENBERG      Dr. Goetz Reiner WESTERMEYER**  
*Independent Egana Board Committee*

## LETTER FROM ACCESS CAPITAL

*Set out below is the text of the letter of advice from Access Capital Limited to the Independent Egana Board Committee and the Independent Egana Shareholders prepared for inclusion in this Circular.*



Suite 606, 6th Floor  
Bank of America Tower  
12 Harcourt Road  
Central  
Hong Kong

30 June 2008

*To the Independent Egana Board Committee and  
the Independent Egana Shareholders of  
Eganagoldpfeil (Holdings) Limited*

Dear Sirs,

### **DEBT RESTRUCTURING, ISSUE OF NEW EGANA SHARES AND CONVERTIBLE BONDS, SPECIAL DEAL REPAYMENT AND WHITEWASH WAIVER**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to the Independent Egana Board Committee and the Independent Egana Shareholders in respect of the Restructuring Proposal, the Special Deal Repayment and the Whitewash Waiver, details of which are set out in the circular to the Egana Shareholders dated 30 June 2008 (the "Circular"), of which this letter forms part. This letter contains our advice to the Independent Egana Board Committee and the Independent Egana Shareholders in respect of the Restructuring Proposal, the Special Deal Repayment and the Whitewash Waiver. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

On 13 June 2008, the Egana Board and the Lifestyle Board jointly announced that Lifestyle, Egana and the Participating Creditors have finalised the terms of the Restructuring Proposal and entered into a conditional Debt Restructuring Agreement with effect from 26 May 2008, which involves, among other things, (i) the issue by Egana to the Equity Subscriber (being a subsidiary of Lifestyle) of 4,342,642,652 new Egana Shares at the subscription price of HK\$0.05 each for a total subscription price of HK\$217,132,132.6; and (ii) the issue by the Issuer (being a subsidiary of Egana) to the Bond Subscriber (being a subsidiary of Lifestyle) of HK\$988,867,867 zero coupon guaranteed convertible bonds due 2010, exchangeable at its option into the Egana Shares at the initial Conversion Price of HK\$0.05 each. Immediately upon completion of the Subscription

## LETTER FROM ACCESS CAPITAL

but before accounting for the Conversion Shares, Lifestyle and its Concert Parties will be interested in an aggregate of approximately 74.8% of the enlarged issued share capital of Egana. Accordingly, Lifestyle and its Concert Parties will be required to make an unconditional mandatory general offer for all the securities of Egana (other than those already owned or agreed to be acquired by Lifestyle and its Concert Parties). In this connection, Lifestyle has applied to the Executive for the Whitewash Waiver under Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the approval by way of poll by the Independent Egana Shareholders at a general meeting of Egana.

As at the date hereof, Egana has two non-executive directors, all being independent non-executive Egana Directors, namely Professor Udo Glittenberg and Dr. Goetz Reiner Westermeyer. The Independent Egana Board Committee, comprising all two aforementioned independent non-executive Egana Directors, has been established for the purpose of advising the Independent Egana Shareholders on the terms of the Restructuring Proposal, the Special Deal Repayment and the Whitewash Waiver. Each of Professor Udo Glittenberg and Dr. Goetz Reiner Westermeyer has confirmed that he does not have any direct or indirect conflict of interest in the Restructuring Proposal, the Special Deal Repayment and the Whitewash Waiver. Based on such confirmation, we consider that all two independent non-executive Egana Directors are eligible to be members of the Independent Egana Board Committee to advise the Independent Egana Shareholders in respect of the Restructuring Proposal, the Special Deal Repayment and the Whitewash Waiver.

As the independent financial adviser to the Independent Egana Board Committee and the Independent Egana Shareholders, our role is to give an independent opinion to the Independent Egana Board Committee and the Independent Egana Shareholders as to whether or not the Restructuring Proposal, the Special Deal Repayment and the Whitewash Waiver are fair and reasonable, and how the Independent Egana Shareholders should vote in respect of the resolutions to approve the Restructuring Proposal, the Special Deal Repayment and the Whitewash Waiver at the Egana EGM.

Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser to the Independent Egana Board Committee and the Independent Egana Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from Egana. We are independent of Egana for the purposes of Rule 13.84 of the Listing Rules.

### **BASIS OF OUR OPINION**

In formulating our advice, we have relied solely on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by Egana and/or the Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular or otherwise provided or made or given by Egana and/or its senior management staff and/or the Egana Directors and for which it is/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of the Circular. We have assumed that all the opinions and representations made or provided by the Egana Directors and/or the senior management staff of Egana contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from Egana and/or its senior management staff and/or the Egana Directors that no material facts have been omitted from the information provided and referred to in the Circular.



## LETTER FROM ACCESS CAPITAL

We consider that we have reviewed all information and documents which are made available to us to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by Egana and/or its senior management staff and/or the Egana Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Egana Group.

### PRINCIPAL FACTORS CONSIDERED

In formulating our opinion regarding the Restructuring Proposal, the Special Deal Repayment and the Whitewash Waiver, we have taken into consideration the following principal factors:

#### I. Information on the Egana Group

The Egana Group is principally engaged in the design, assembly, manufacturing and distribution of luxury and fashion products which are broadly divided into three principal categories, namely, timepieces, jewellery, and leather and lifestyle products. Set out below is a summary of the Egana Group's operating results and financial position for each of the two years ended 31 May 2007 and the six months ended 30 November 2007 as extracted from its annual report and interim report for 2007:–

	For the year ended 31 May		For the six months ended 30 November	
	2006 <i>HK\$'000</i> (Audited)	2007 <i>HK\$'000</i> (Audited)	2006 <i>HK\$'000</i> (Unaudited)	2007 <i>HK\$'000</i> (Unaudited)
Turnover	5,975,450	7,025,459	3,309,970	2,884,348
Cost of sales	<u>(3,641,406)</u>	<u>(4,452,086)</u>	<u>(1,990,605)</u>	<u>(1,666,169)</u>
Gross profit	2,334,044	2,573,373	1,319,365	1,218,179
Other revenues	110,266	148,392	64,582	93,875
Distribution costs	(1,308,469)	(1,543,601)	(716,706)	(855,238)
Administrative expenses	(651,408)	(785,903)	(356,104)	(566,957)
Impairment losses on assets	<u>(12,367)</u>	<u>(1,986,830)</u>	<u>(3,137)</u>	<u>(1,011,067)</u>
Operating profit/(loss)	472,066	(1,594,569)	308,000	(1,121,208)
Finance costs	(137,284)	(308,533)	(89,786)	(131,207)
Share of profit of associated companies	10,363	82,730	13,275	9,112
Taxation	<u>(5,923)</u>	<u>(119,821)</u>	<u>(25,594)</u>	<u>(21,893)</u>
Profit/(loss) for the year/period	<u><u>339,222</u></u>	<u><u>(1,940,193)</u></u>	<u><u>205,895</u></u>	<u><u>(1,265,196)</u></u>
Attributable to:				
Equity holders of Egana	304,957	(1,959,408)	186,023	(1,263,503)
Minority interests	<u>34,265</u>	<u>19,215</u>	<u>19,872</u>	<u>(1,693)</u>
	<u><u>339,222</u></u>	<u><u>(1,940,193)</u></u>	<u><u>205,895</u></u>	<u><u>(1,265,196)</u></u>

## LETTER FROM ACCESS CAPITAL

	<b>As at 31 May</b>		<b>As at</b>
	<b>2006</b>	<b>2007</b>	<b>30 November</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Audited)	(Audited)	(Unaudited)
Non-current assets	1,879,594	1,584,307	1,456,005
Current assets	4,697,339	3,205,408	2,887,885
Current liabilities	(2,972,926)	(3,223,111)	(5,080,758)
Non-current liabilities	(1,393,433)	(1,239,645)	(297,605)
Net current assets/(liabilities)	1,724,413	(17,703)	(2,192,873)
Net assets/(liabilities)	2,210,574	326,959	(1,034,473)

As referred to in the annual report of Egana for the year ended 31 May 2007 (the “Annual Report”), its interim report for the period ended 30 November 2007 (the “Interim Report”) and its subsequent announcements, the Egana Group has faced severe financial difficulties since July 2007 principally as a result of a largely self-contained area of the Egana Group’s trading operations (as identified in the KPMG review) which was discontinued during the six months ended 30 November 2007. For the year ended 31 May 2007 and the six months ended 30 November 2007, the Egana Group suffered losses attributable to its equity holders of approximately HK\$1,959.4 million and HK\$1,263.5 million, respectively. As noted in the Annual Report, the substantial loss for the year ended 31 May 2007 was primarily due to provision of approximately HK\$1.6 billion for doubtful accounts and other receivables and promissory notes, and impairment loss on goodwill and trademarks written off in aggregate of approximately HK\$211.8 million.

As noted in the Annual Report, the then auditors of Egana had stated that they were unable to form an opinion as to whether Egana’s accounts give a true and fair view of the state of affairs of Egana and the Egana Group as at 31 May 2007 and of the Egana Group’s loss and cash flows for the year then ended because of the scope limitation on material sales transactions and receivable provision, and the fundamental uncertainty relating to the Egana Group’s ability to continue as a going concern. In particular, the auditors were unable to obtain reasonable representations and assurances from management of Egana that the relevant sales transactions represented genuine sales to independent third party customers. As such, the auditors were unable to satisfy themselves as to the original sales, the related costs thereof, the gross profit so arising, or the appropriateness of the provision made in respect of the outstanding balances. For further details of the auditors’ opinion on Egana’s accounts and financial position for the year ended 31 May 2007, Egana Shareholders are advised to read the Annual Report.

## LETTER FROM ACCESS CAPITAL

As for the six months ended 30 November 2007, the significant loss attributable to the equity holders of approximately HK\$1,263.5 million during the six-month period was mainly due to (i) the additional impairment losses on doubtful receivables in the amount of approximately HK\$1.0 billion made for the period; (ii) the net loss on disposal of non-core available-for-sale securities and investments of approximately HK\$82.9 million; (iii) the legal and professional fees and other expenses in the amount of approximately HK\$71.4 million mainly incurred in relation to the financial restructuring of the Egana Group; and (iv) the relocation expenses and associated restructuring costs in the aggregate amount of approximately HK\$66.4 million in connection with the relocation of overseas office of one of Egana's brands in German, the closure of certain business units of jewellery and leather divisions and the closing of consumer electronics sales company and the mass market business in timepieces.

As set out in the Interim Report, the Egana Group had net current liabilities and net liabilities of approximately HK\$2.2 billion and HK\$1.0 billion, respectively, as at 30 November 2007. In addition, the Egana Group had bank and other borrowings of approximately HK\$4.0 billion as at 30 November 2007, all of which were due within one year or repayable on demand. Egana Shareholders should note that the accounts of the Egana Group for the six months ended 30 November 2007 were neither audited nor reviewed by any auditors. In addition, it should be noted that despite the significant deficit position of the Egana Group as at 30 November 2007, the accounts were, however, prepared on a going concern basis. As set out in the Interim Report, the validity of such going concern basis is dependent on the successful outcome of the financial restructuring proposal made by Lifestyle. Should the Egana Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities to current assets and current liabilities. The effect of such adjustments has not been reflected in the accounts.

## **II. Reasons for the Restructuring Proposal**

As advised by Egana, in view of the severe financial difficulties faced by the Egana Group, certain bank creditors of the Egana Group had threatened to bring legal proceedings and (in some cases) served statutory demands against the Egana Group for the repayment of outstanding debts, and certain credit insurers and debt factoring banks withdrew the facilities they had previously been providing to the Egana Group. Such actions had significant adverse effects on the Egana Group's cash flow and ongoing trading business as a whole. Since the submission by Lifestyle of a non-binding term sheet to Egana, the Lifestyle Group has made working capital available to the Egana Group for its business operation through the provision of the Bridging Loan. As a result of this additional liquidity, coupled with clear evidence of a restructuring proposal being made by Lifestyle, the demands made against the Egana Group were subsequently withdrawn and the main factoring bank of the Egana Group restored the factoring facilities. Bank and other creditors of the Egana Group have subsequently exercised forbearance pending the implementation of the Restructuring Proposal.

## LETTER FROM ACCESS CAPITAL

As set out in the Letter from the Egana Board, the primary objectives of the Restructuring Proposal are to inject new capital into Egana for settling the Bridging Loan; reducing the level of the Participating Creditors' Debt; and strengthening the financial position of the Egana Group. The Egana Board considers that the successful implementation of the Restructuring Proposal is essential for the Egana Group to be able to continue to operate as a going concern. The Egana Board also believes that the Egana Group can benefit from having Lifestyle as its controlling shareholder, such as by leveraging on Lifestyle's experience and business network to develop further the Egana Group's business in the PRC.

As stated in the Announcement, the Egana Group, as at the Cut-Off Date of 1 August 2007, owed the Participating Creditors and the Non-Participating Creditors an aggregate net indebtedness of approximately HK\$3.73 billion, of which HK\$3.58 billion was owed to the Participating Creditors and HK\$152.9 million was owed to Non-Participating Creditors. Out of the total net indebtedness of approximately HK\$152.9 million owed to the Non-Participating Creditors, approximately HK\$104.7 million was fully secured and owed to the Fully Secured Creditors.

Based on the existing financial position of the Egana Group and, in particular, its net liabilities position of approximately HK\$1.0 billion as at 30 November 2007, we are of the view that, in the absence of any financial restructuring arrangements which can reduce the substantial amount of the indebtedness of the Egana Group or eliminate the asset deficiency position of the Egana Group, it is unlikely for the Egana Group to operate as a going concern in the future, and eventually winding up petitions may be served by its creditors when Egana fails to make repayments to them. As advised by Egana and as apparent from the Egana Group's unaudited financial statement as at 30 November 2007, in the event that the Restructuring Proposal fails to proceed and the creditors decide to proceed with the liquidation of the Egana Group, there will unlikely be any return to the Egana Shareholders.

On the basis of the current circumstances, we are of the opinion that the Restructuring Proposal is more likely to provide a higher return to the Egana Shareholders over a shorter time period than if Egana is forced into liquidation. Furthermore, given that financial resources which will be available to Egana as a result of the Restructuring Proposal will significantly reduce the indebtedness of the Egana Group, improve the Egana Group's financial predicament and provide substantial working capital to the Egana Group, we concur with the Directors' view that the Restructuring Proposal is in the interests of Egana and the Egana Shareholders as a whole.

### **III. The Restructuring Proposal**

The Restructuring Proposal principally involves (i) the Debt Restructuring Agreement, (ii) the Subscription Agreement, (iii) the Participating Creditors' CB Subscription Agreement and (iv) the Delinquent Debts Agreement.

## LETTER FROM ACCESS CAPITAL

### A. *The Debt Restructuring Agreement*

The principal terms of the Debt Restructuring Agreement have been set out in the Letter from the Egana Board. In particular, Egana, Lifestyle and the Participating Creditors have conditionally agreed, among other things, that:

- (a) three cash re-payments from the Debtors to the Participating Creditors and the Fully Secured Creditors in the aggregate amount of HK\$1,920.0 million, each instalment being in the amount of HK\$640.0 million with the first instalment to be used to pay off all of the debt owed to the Fully Secured Creditors and the remainder of such instalment and the second and third instalments are to be applied to pay the debts owing to the Participating Creditors;
- (b) the issue to the Participating Creditors at the Effective Date of HK\$80.0 million zero coupon guaranteed convertible bonds due 2010, exchangeable at their option into the Egana Shares at the initial Conversion Price of HK\$0.05 each, pursuant to the Participating Creditors' CB Subscription Agreement;
- (c) an 80% share of the net recoveries of the Delinquent Debts (being doubtful receivables with potential but uncertain recoverability) to be paid to the Participating Creditors as and when the same are recovered with the remaining 20% being retained by the Egana Group, pursuant to the Delinquent Debts Agreement;
- (d) the issue (i) by Egana to a subsidiary of Lifestyle, the Equity Subscriber, of 4,342,642,652 new Egana Shares at the subscription price of HK\$0.05 each for a total subscription price of HK\$217,132,132.6, and (ii) by the Issuer to a subsidiary of Lifestyle, the Bond Subscriber, of HK\$988,867,867 zero coupon guaranteed convertible bonds due 2010, exchangeable at its option into the Egana Shares at the initial Conversion Price of HK\$0.05 each, pursuant to the Subscription Agreement for both the Subscription Shares and the Lifestyle Convertible Bonds; and
- (e) repayment of the Bridging Loan in full and release of the security for that facility as of the date of issue of the Lifestyle Convertible Bonds.

### B. *The Subscription Agreement*

#### (i) Subscription Shares

Under the terms of the proposed Subscription Agreement, the Equity Subscriber will agree, subject to the satisfaction or waiver of the relevant conditions precedent to be set out in the proposed Subscription Agreement, to subscribe for an aggregate of 4,342,642,652 new Egana Shares at a subscription price of HK\$0.05 per Egana Share. The Subscription Shares will represent

## LETTER FROM ACCESS CAPITAL

approximately 296.6% of the issued share capital of Egana as at the Latest Practicable Date and approximately 74.8% of the enlarged issued share capital of Egana after the issue of the Subscription Shares but before any conversion of any of the Participating Creditors' Convertible Bonds or the Lifestyle Convertible Bonds.

The Subscription Price of HK\$0.05 per Subscription Share represents:–

- a discount of approximately 92.42% to the closing price of HK\$0.66 per Egana Share as quoted on the Stock Exchange on 11 September 2007, being the last trading day (the “Last Trading Day”) immediately prior to the suspension of trading in the Egana Shares since 12 September 2007;
- a discount of approximately 92.96% to the average closing price of approximately HK\$0.71 per Egana Share for the five consecutive trading days ended on the Last Trading Day; and
- a discount of approximately 95.87% to the average closing price of approximately HK\$1.21 per Egana Share for the ten consecutive trading days ended on the Last Trading Day.

Since the Egana Shares were suspended from trading from 12 September 2007, the pre-suspension traded prices of the Egana Shares as quoted above had not factored in the deterioration of financial position of the Egana Group for the six months ended 30 November 2007 as disclosed in the Interim Report. Accordingly, we consider that the closing price of the Egana Shares prior to the suspension of trading is not reflective of the current financial condition and value of Egana, and that it is, therefore, inappropriate to use the share prices recorded prior to the suspension on 12 September 2007 as a benchmark for comparison against the issue price under the Subscription.

In addition, despite the substantial discount of the issue price, we consider that given the current financial conditions of the Egana Group, it would unlikely be able to raise any funds from debt or equity issue at the then prevailing market prices of the Egana Shares. In general, we consider that it is commercially acceptable and typical in a corporate rescue exercise for the subscription price of the new Egana Shares, which was arrived at after arm's length negotiations, to be lower than the closing price immediately prior to the suspension of trading. As mentioned above, the Egana Group had unaudited net liabilities of approximately HK\$1.0 billion as at 30 November 2007. The Subscription Price of HK\$0.05 per New Share actually represents a significant premium over the net deficits attributed to each existing Share of Egana. On this basis, we are of the view that the Subscription Price under the Subscription is fair and reasonable so far as the Independent Egana Shareholders are concerned.

## LETTER FROM ACCESS CAPITAL

### (ii) Lifestyle Convertible Bonds

Under the proposed Subscription Agreement, the Bond Subscriber will conditionally agree to subscribe for the Lifestyle Convertible Bonds, which are zero coupon convertible bonds in the aggregate principal amount of HK\$988,867,867 due 2010, exchangeable at the option of the holder(s) thereof into new Egana Shares at an initial Conversion Price of HK\$0.05 per Share. On the basis of the 1,464,001,524 Egana Shares in issue as at the Latest Practicable Date, upon full conversion of the entire principal amount of the Lifestyle Convertible Bonds into the Conversion Shares at the initial Conversion Price of HK\$0.05, a total of 19,777,357,340 Conversion Shares will be issued, which represents (i) approximately 13.5 times of the issued share capital of Egana as at the Latest Practicable Date, (ii) approximately 77.3% of the enlarged issued share capital of Egana upon full conversion of the Lifestyle Convertible Bonds but before the full conversion of the Participating Creditors' Convertible Bonds, and (iii) approximately 72.8% of the enlarged issued share capital of Egana upon full conversion of the Lifestyle Convertible Bonds and the Participating Creditors' Convertible Bonds.

The principal terms of the Lifestyle Convertible Bonds have been set out in the Letter from the Egana Board, which are briefly summarised as follows:–

Principal amount	:	HK\$988,867,867
Denomination	:	HK\$10,000,000 each, or in relation to the odd lot of HK\$8,867,867 Lifestyle Convertible Bonds, in the denomination of HK\$8,867,867
Maturity	:	Unless previously redeemed, converted or purchased and cancelled, the Issuer will redeem each outstanding Lifestyle Convertible Bond at 100% of its principal amount on the Maturity Date, i.e. the date immediately following the expiration of two years and 14 days from the Effective Date.
Interest	:	Zero coupon
Conversion Price	:	The initial Conversion Price is HK\$0.05 per Share of par value of HK\$0.01 each, which is subject to adjustment from time to time on the occurrence of events that have a dilutive or concentrative effect on the value of the Egana Shares.

## LETTER FROM ACCESS CAPITAL

Conversion Shares : The Conversion Shares shall, when issued, rank pari passu in all respects with all other issued share capital of Egana on the date of conversion including the right to all dividends or other distributions.

It is a term and condition that the bondholder(s) shall exercise the conversion rights attaching to the Lifestyle Convertible Bonds only if it is confirmed by Egana that the allotment and issue of the Conversion Shares under the Lifestyle Convertible Bonds to the bondholder(s) pursuant to an exercise of the conversion right attaching to the Lifestyle Convertible Bonds will not cause Egana to be in breach of the minimum public float requirement stipulated under Rule 8.08 of the Listing Rules immediately upon the allotment and issue of such Egana Shares.

Early redemption : At any time after the first anniversary of the issue date but not less than seven business days prior to the Maturity Date, the Issuer may, having given prior written notice in accordance with the terms and conditions, redeem the Lifestyle Convertible Bonds in whole but not in part, provided that no such redemption may be made unless the closing price of the Egana Shares for each of the 15 consecutive trading days, the last trading day of which falls on the fifth trading day immediately prior to the date upon which the early redemption notice is given, was greater than the higher of: (a) HK\$0.20; and (b) 4 times of the prevailing Conversion Price.

Transferability : The Lifestyle Convertible Bonds may be transferred subject to compliance of the conditions including the delivery of transfer forms to the Issuer. No transfer is allowed during the transfer closed periods including (a) during the period of 7 days ending on (and including) the dates for payment of any principal; and (b) after conversion notices having been delivered with respect to such Lifestyle Convertible Bonds.



## LETTER FROM ACCESS CAPITAL

- Voting : Holders of the Lifestyle Convertible Bonds will not be entitled to receive notices of, attend or vote at any general meetings of Egana by reason only of it being a holder of such Lifestyle Convertible Bonds.
- Listing : The Lifestyle Convertible Bonds will not be listed on the Stock Exchange or any other stock exchange.

The Conversion Price of HK\$0.05 per Conversion Share is the same as the Subscription Price. Given our analysis on the Subscription Price as stated above, we are also of the view that the Conversion Price is fair and reasonable as far as the Independent Egana Shareholders are concerned. Regarding the other terms of the Lifestyle Convertible Bonds, we note that the Lifestyle Convertible Bonds will not carry any interest and there will not be any redemption premium required to be paid at maturity, which we consider to be in the interest of Egana as the Lifestyle Convertible Bonds will not have any adverse impact on the cash flow of the Egana Group during their term. In summary, given the fact that (i) the issue of the Lifestyle Convertible Bonds is part of the Restructuring Proposal the objective of which is essentially to assist the Egana Group in restoring its financial position; (ii) the Conversion Price, which is the same as the Subscription Price, in fact represents a premium over the existing net deficit position of the Egana Shares; (iii) the Lifestyle Convertible Bonds do not carry any interest and therefore do not have any adverse impact on the cash flow of the Egana Group until maturity; and (iv) the Lifestyle Convertible Bonds may enhance the capital base of Egana when conversion takes place, we consider the issue of the Lifestyle Convertible Bonds, as part of the terms under the Subscription Agreement, to be in the interests of Egana and the Egana Shareholders as a whole and the terms of the Lifestyle Convertible Bonds are fair and reasonable.

### *C. Participating Creditors' CB Subscription Agreement*

As part of the Restructuring Proposal, Egana, the Issuer (being a wholly-owned subsidiary of Egana), the Participating Creditors and CITIC Ka Wah Bank Limited (as a coordinator for the Participating Creditors) will enter into the proposed Participating Creditors' CB Subscription Agreement, pursuant to which the Issuer proposes to issue HK\$80 million in aggregate principal amount of zero coupon guaranteed Participating Creditors' Convertible Bonds to the Participating Creditors at the Effective Date. Egana and its selected major subsidiaries named in the Participating Creditors' Convertible Bonds Guarantee will jointly and severally guarantee the payment obligations under the Participating Creditors' Convertible Bonds.

On the basis of the 1,464,001,524 Egana Shares in issue as at the Latest Practicable Date, upon full conversion of the entire principal amount of the Participating Creditors' Convertible Bonds into the Conversion Shares at the initial

## LETTER FROM ACCESS CAPITAL

Conversion Price of HK\$0.05, a total of 1,600,000,000 Conversion Shares will be issued, which represents (i) approximately 109.3% of the issued share capital of Egana as at the Latest Practicable Date, (ii) approximately 21.6% of the enlarged issued share capital of Egana upon the issue of the Subscription Shares and the full conversion of the Participating Creditors' Convertible Bonds but before the full conversion of the Lifestyle Convertible Bonds, and (iii) approximately 5.9% of the enlarged issued share capital of Egana upon the issue of the Subscription Shares and the full conversion of the Lifestyle Convertible Bonds and the Participating Creditors' Convertible Bonds.

The principal terms of the Participating Creditors' Convertible Bonds have been set out in the Letter from the Egana Board, which are briefly summarised as follows:–

Principal amount	:	HK\$80 million
Denomination	:	HK\$100
Maturity	:	Unless previously redeemed, converted or purchased and cancelled, the Issuer will redeem each outstanding Participating Creditors' Convertible Bond at 100% of its principal amount on the Maturity Date, i.e. the date immediately following the expiration of two years and 14 days from the Effective Date.
Interest	:	Zero coupon
Conversion	:	Subject to the terms of the Participating Creditors' Convertible Bonds, bondholder(s) will have the right to convert at any time on and after the Effective Date up to the close of business on the Maturity Date or if such Participating Creditors' Convertible Bonds shall have been called for redemption by the Issuer before the Maturity Date, then up to the close of business on a date no later than seven business days prior to the date fixed for redemption.

If (a) the Issuer shall default in making payment in full in respect of any Participating Creditors' Convertible Bonds which shall have been called for redemption on the date fixed for redemption thereof;

## LETTER FROM ACCESS CAPITAL

(b) any Participating Creditors' Convertible Bonds have become due and payable prior to the Maturity Date by reason of the occurrence of early termination; or (c) any Participating Creditors' Convertible Bonds are not redeemed on the Maturity Date in accordance with the terms and conditions, the conversion right attaching to such Participating Creditors' Convertible Bonds will revive and/or will continue to be exercisable up to, and including, the close of business on the date upon which the full amount of the moneys payable in respect of such Participating Creditors' Convertible Bonds have been duly received by the principal agent or the trustee and notice of such receipt has been duly given to the relevant holders of such Participating Creditors' Convertible Bonds.

Fractions of Egana Shares will not be issued on conversion and no cash adjustments will be made in respect thereof.

- Conversion Price : The initial Conversion Price is HK\$0.05 per Egana Share, which is subject to adjustment from time to time on the occurrence of the events that have a dilutive or concentrative effect on the value of the Egana Shares.
- Conversion Shares : The Conversion Shares shall, when issued, rank pari passu in all respects with all other issued share capital of Egana on the date of conversion including the right to all dividends or other distributions.
- Early redemption : At any time after the first anniversary of the Effective Date but not less than seven business days prior to the Maturity Date, the Issuer may, having given prior written notice in accordance with the terms and conditions, redeem the Participating Creditors' Convertible Bonds in whole but not in part, provided that no such redemption may be made unless the closing price of the Egana Shares for each of the

## LETTER FROM ACCESS CAPITAL

15 consecutive trading days, the last trading day of which falls on the 5th trading day immediately prior to the date upon which the early redemption notice is given, was greater than the higher of: (i) HK\$0.20 and (ii) four times of the prevailing Conversion Price.

The Issuer or the Egana Group may at any time and from time to time purchase the Participating Creditors' Convertible Bonds at any price in the open market or otherwise. Such Participating Creditors' Convertible Bonds may, at the option of the Issuer or the Egana Group, be held, resold or cancelled. The Participating Creditors' Convertible Bonds so acquired, while held on behalf of the Issuer or any member of the Egana Group, shall not entitle the holders thereof to convert the Participating Creditors' Convertible Bonds in accordance with the terms and conditions nor exercise any voting rights with respect to such Participating Creditors' Convertible Bonds.

- |                 |   |   |
|-----------------|---|---|
| Transferability | : | The Participating Creditors' Convertible Bonds may be transferred subject to compliance of the conditions including the delivery of transfer forms to the registrar and the agents. No transfer is allowed during the transfer closed periods including (a) during the period of 7 days ending on (and including) the dates for payment of any principal; and (b) after conversion notices have been delivered with respect to such Participating Creditors' Convertible Bonds. |
| Listing         | : | The Participating Creditors' Convertible Bonds will not be listed on the Stock Exchange or any other stock exchange.  |

As set out in the above table, the principal terms of the Participating Creditors' Convertible Bonds are similar to those of the Lifestyle Convertible Bonds. In particular, both of the Participating Creditors' Convertible Bonds and the Lifestyle Convertible Bonds have the same Conversion Price of HK\$0.05 per Conversion Share (which is

## LETTER FROM ACCESS CAPITAL

also same as the Subscription Price); the same maturity date as the date immediately following the expiration of two years and 14 days from the Effective Date; and the same zero interest coupon rate and zero redemption premium. Given our analysis on the principal terms of the Lifestyle Convertible Bonds as stated above, we are also of the view that the issue of the Participating Creditors' Convertible Bonds, as part of the terms under the Restructuring Proposal, to be in the interests of Egana and the Egana Shareholders as a whole and the terms of the Participating Creditors' CB Subscription Agreement are fair and reasonable.

### *D. The Delinquent Debts Agreement*

As at 16 October 2007, the aggregate outstanding principal amount of the Delinquent Debts of the Egana Group (being doubtful receivables with potential but uncertain recoverability) was approximately HK\$2.6 billion. Provision of approximately HK\$1.6 billion was made during the financial year ended 31 May 2007, and further provision was made for the remaining amount of HK\$1.0 billion during the six months ended 30 November 2007. Accordingly, full provision has been made in respect of the Delinquent Debts as at the Latest Practicable Date. As set out in the Letter from the Egana Board, Lifestyle, Egana and the Participating Creditors will enter into the Delinquent Debts Agreement and it is currently contemplated that pursuant to the proposed terms of the Delinquent Debts Agreement, the Participating Creditors and the Egana Group will share any recoveries from, and the related costs and expenses of any claims in relation to, the Delinquent Debts in the proportion of 80% and 20%, respectively. The amount of the Delinquent Debts recoveries to be shared by the Participating Creditors will not exceed the aggregate amount of the Participating Creditors' Restructured Debt and the amount payable to the Participating Creditors on early termination of the Debt Restructuring Agreement less an amount equal to the aggregate amounts which the Participating Creditors receive under the Debt Restructuring Agreement (other than under any relevant fee letters) and the New Guarantees and the amount of the Participating Creditors' Debt which was used to subscribe for the Participating Creditors' Convertible Bonds. Any payment received by the Participating Creditors in relation to the Delinquent Debts shall be deemed not to reduce any payment due to the Participating Creditors under the Debt Restructuring Agreement. Further details of the proposed terms of the Delinquent Debts Agreement have been set out in the Letter from the Egana Board.

In view of the fact that full provision has been made in respect of the Delinquent Debts, it is uncertain as to whether and when the Egana Group would be able to recover any net amount of the Delinquent Debts after deduction of the related costs and expenses. In any event, the amount of the Delinquent Debts recoveries, if any, to be shared by the Participating Creditors would be limited to the aggregate amount to be received by the Participating Creditors in cash or in the Participating Creditors' Convertible Bonds in accordance with the terms of the Delinquent Debts Agreement. As such, we do not consider the 80% share by the Participating Creditors of the net recoveries of the Delinquent Debts, if any, pursuant to the Delinquent Debts Agreement to be a significant factor in determining the merits of the Restructuring Proposal.

#### **IV. Effects of the Restructuring Proposal**

##### *A. Restoring financial stability of the Egana Group*

The Egana Board considers Egana's continued operation under the uncertainty of an informal standstill arrangement with its creditors is not a viable proposition going forward. This is due to the fact that any creditors could, if they wish to do so, terminate the informal standstill position and exercise their rights on the respective debt in default, although no creditors has taken any enforcement action after the provision of the Bridging Loan from Lifestyle. The Egana Board further recognises the financial stability of the Egana Group is the key factor in supporting the validity of the going concern basis in relation to the carrying value of the underlying assets of the Egana Group. In the event that the indebtedness to the Participating Creditors cannot be successfully restructured, and that the relevant creditors were to resort to enforcing their rights, which would result in the forced sale of the underlying assets of the Egana Group, it is possible that the achievable recoverable value from the disposal of such assets would be substantially lower than the carrying value in the Egana Group's last published unaudited consolidated balance sheet as at 30 November 2007 (which was prepared on a going concern basis). We concur with the above observations and views of the Egana Board.

The Egana Board considers that the Restructuring Proposal forms an integral part of its overall objective of restoring the Egana Group's financial stability. The implementation of the Restructuring Proposal would mitigate the risk of possible liquidation as a result of the default of the indebtedness to its financial creditors. The Egana Board believes that although the entering of the Debt Restructuring Agreement does not itself guarantee the outcome of the ongoing discussions with the Egana Group's creditors (other than the Participating Creditors), it will certainly be a positive move that would assist in the fulfillment of that objective, because of the expected resultant improvement in the Egana Group's financial position. **Nevertheless, it should be noted that trading in the Egana Shares has been suspended since 12 September 2007 and that the resumption of trading in the Egana Shares is subject to a number of conditions which may or may not be fulfilled. Accordingly, while the successful implementation of the Restructuring Proposal will certainly be a positive factor for the purposes of Egana's application for resumption of trading in the Egana Shares, there is no assurance that trading in the Egana Shares would be resumed upon completion of the Restructuring Proposal.**

##### *B. Net deficiency*

Based on the unaudited pro forma consolidated balance sheet of the Egana Group as set out in Appendix II to the Circular which has been prepared on the assumptions including, among others, that the Restructuring Proposal had been completed on 30 November 2007, the pro forma unaudited consolidated net assets of the Egana Group upon Completion would amount to approximately HK\$1,080.4 million. This represents a significant improvement compared with the net deficits of approximately HK\$1,034.5 million before the implementation the Restructuring Proposal.

## LETTER FROM ACCESS CAPITAL

Independent Egana Shareholders should also note that such pro forma financial information of the Egana Group mentioned above has been prepared on a going concern basis whereas the actual value of its assets may depreciate significantly if the Egana Group is forced into liquidation. However, the Restructuring Proposal will be a means to preserve the value of the Egana Group's assets because it will prevent the Egana Group from being liquidated. Given this benefit and the enhancement of the overall pro forma net asset position of the Egana Group as a result of the Restructuring Proposal, we consider that the Restructuring Proposal is in the interests of Egana and the Egana Shareholders as a whole.

### *C. Working capital*

The Subscription is expected to raise approximately HK\$1,206.0 million in cash, of which (i) HK\$300.0 million will be used for the settlement of the Bridging Loan; (ii) HK\$640.0 million will be for the first instalment pursuant to the Debt Restructuring Agreement; and (iii) the remaining balance of approximately HK\$266.0 million will be retained by the Egana Group as working capital. As set out in the Circular, the Directors have confirmed that the Egana Group will have sufficient working capital for its operations for a period of 12 months after the Completion. On the basis that sufficient working capital will be available to the Egana Group for its operations for at least 12 months after Completion, we are of the opinion that the Restructuring Proposal is in the interests of Egana and the Independent Egana Shareholders as a whole.

### *D. Dilution effect on the shareholding*

Details of the existing shareholding structure of Egana and the possible shareholding structure following the Completion are set out in the Letter from the Egana Board. In order to assess the fairness and reasonableness of the possible dilution effect on the shareholding of the public shareholders upon completion of the Restructuring Proposal, we have attempted to compare such dilution effect with those of the recent restructuring exercises carried out by companies listed on the Stock Exchange with similar circumstances. In this connection, we have identified five restructuring exercises announced during the period from 1 January 2007 to the date of the Announcement by those companies whose shares had been suspended in trading for a prolonged period. During the relevant period, we note that there were other restructuring proposals announced by companies listed on the Stock Exchange involving rights issue or open offers. However, because of the fact that the shareholders of those companies have been provided an opportunity to participate in the proposal, the dilution on their shareholdings would to certain extent depend on their actions regarding the rights issue or open offer, which is different from the scenario under the Restructuring Proposal. Accordingly, we have not included such proposals as comparables in our analysis. The following table summarises the results of our finding.

## LETTER FROM ACCESS CAPITAL

Company (stock code)	Date of announcement	Possible minimum shareholding of independent shareholders before the restructuring exercise (A)	Possible minimum shareholding of independent shareholders after completion of the restructuring exercise (B)	Maximum dilution effect <i>1-(B)/(A)</i>	Maximum amount of equity provided by investors <i>HK\$ million</i>
Forefront International Holdings Limited (885)	16-Feb-2007	100.00%	44.99%	55.01%	104
Vision Tech International Holdings Limited (922)	28-Jun-2007	80.49%	2.56%	96.82%	75
Dickson Group Holdings Limited (313)	12-Feb-2008	100.00%	2.65%	97.35%	525
Far East Pharmaceutical Technology Company Limited (399)	19-Mar-2008	100.00%	3.57%	96.43%	150
Plus Holdings Limited (1013)	3-Apr-2008	100.00%	3.82%	96.18%	170
<b>Egana</b>	<b>13-Jun-2008</b>	<b>66.02%</b>	<b>3.55%</b>	<b>94.62%</b>	<b>1,920</b>

As shown in the above table, except for one comparable, the dilution in the shareholdings of the independent shareholders as a result of subscription of new shares by investors was significant with the percentage of over 95%. In the case of Egana, the maximum dilution of approximately 94.62% on the shareholdings of the Independent Egana Shareholders is the second lowest among all the comparables. In addition, the subscription proceeds under the Subscription are significantly higher than the equity provided by the investors in the comparable restructuring exercises. In general, it is common in the market that restructuring exercise carried out by companies which have been in financial difficulties would normally result in substantial dilution on the shareholdings of their shareholders. Given the substantial amount of equity to be provided by Lifestyle, we consider it logical for Lifestyle to require a high percentage of equity interest in Egana in exchange for their investments in the Egana Group. Furthermore, in view of the Egana Group's total indebtedness of approximately HK\$4.0 billion as at 30 November 2007 and its net deficit position, it would be very



## LETTER FROM ACCESS CAPITAL

difficult for the Egana Group to raise capital by way of debt issue or from the equity market. In the absence of a viable restructuring proposal which includes a substantial cash injection for settlement of large amount of debts and general operation needs, it is very likely that the creditors of the Egana Group may proceed with the liquidation of the Egana Group if the Restructuring Proposal is not approved by the Independent Egana Shareholders. In the event that Egana is put into liquidation, it is likely that there will not be any return to the Egana Shareholders. Taking the above factors into consideration, we consider the dilution effect on the Independent Egana Shareholders' shareholding interests to be reasonable and acceptable.

### **V. Future intentions of the Investors**

As set out in the Letter from the Egana Board, Lifestyle is investment holding and Lifestyle's subsidiaries' principal business activities are the operation of "lifestyle" department stores and property holding. The intention of Lifestyle regarding the business operations and future development of the Egana Group is described in the Circular. In particular, Lifestyle intends to continue Egana's existing principal business and will conduct a detailed review on the financial position and operations of the Egana Group in order to formulate a corporate strategy upon Completion. In addition, Lifestyle will conduct a thorough appraisal on the performance of the employees of the Egana Group upon Completion. Subject to such performance reviews, Lifestyle intends to continue the employment of the employees for the continuity of the Egana Group's existing business. Lifestyle intends that additional directors and senior management will be appointed to the Egana Group as and when appropriate. As set out in the Letter from the Egana Board, there is no intention of the parties that any of the existing Egana Directors will resign after the completion of the Subscription, and the Chairman will be appointed by the Egana Board upon Completion and Lifestyle will nominate at least one executive director to the Egana Board.

Egana Shareholders should note that the new management team and the new Egana Directors to be appointed to the Egana Group may not have the relevant experience in managing the Egana Group's existing businesses and that there is no guarantee that the Egana Group will revert to profitability in the near future. While we are at present unable to comment on the prospects of the restructured Egana Group, we consider that the Restructuring Proposal will introduce to Egana a new controlling shareholder who has the financial resources to restore the Egana Group to a stable financial condition and continue its normal business operations and is therefore in the interests of Egana and the Egana Shareholders as a whole.

### **VI. The Whitewash Waiver**

Immediately after the issue of the Subscription Shares (but before full conversion of the Lifestyle Convertible Bonds and the Participating Creditors' Convertible Bonds), Lifestyle and its Concerted Parties will be interested in approximately 74.79% of the enlarged issued share capital of Egana and their shareholding will be increased further to approximately 88.73% of the issued share capital of Egana as enlarged by the full conversion of the Lifestyle Convertible Bonds and the Participating Creditors' Convertible Bonds. In accordance with Rule 26 of the Takeovers Code, Lifestyle is obliged to make a general offer for all the Egana Shares other than those already held by it and its Concerted Parties.

## LETTER FROM ACCESS CAPITAL

Lifestyle has applied to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. It is one of the conditions precedent of the Subscription Agreement that the Whitewash Waiver has to be obtained. The Executive has indicated, subject to the approval by the Independent Egana Shareholders on a vote taken by way of a poll, to waive any obligations of Lifestyle and its Concerted Parties to make a general offer which might result from the Completion. In the event that the Whitewash Waiver is not approved by the Independent Egana Shareholders and Lifestyle does not waive the condition on the Whitewash Waiver, the Subscription Agreement will not become unconditional. In such case, the Restructuring Proposal will not proceed and Egana will not receive the funds from the Subscription.

For reasons as discussed above, we consider that if the Restructuring Proposal is not implemented, the creditors will likely take legal actions to recover their claims and force Egana to wind up. Under such circumstances and given the current financial conditions of the Egana Group, the Egana Shareholders will unlikely be able to realise any returns. As the requirement for the Whitewash Waiver is a common feature in rescue proposals for companies which are in financial difficulties and revived as a result of injection of funds by new investors, we are in the opinion that the grant of the Whitewash Waiver is in the interests in Egana and the Egana Shareholders as a whole for the purposes of implementing the Restructuring Proposal.

### **VII. The Special Deal Repayment**

As stated in the Letter from the Egana Board, after having reviewed Egana's register of members, the CCASS participating shareholding report and the confirmations received from the Participating Creditors, the Egana Board has noted that there are Special Deal Participating Creditors beneficially interested in an aggregate of 7,342,000 Egana Shares, representing approximately 0.5% of the issued share capital of Egana as at the Latest Practicable Date. As the use of funds from the Restructuring Proposal to repay the loan owed to such Special Deal Participating Creditors constitutes a special deal under Note 5 of Rule 25 of the Takeovers Code, such proposed loan repayment requires consent from the Executive. An application will be made to the Executive for the Special Deal Consent which, if given, will be subject to (i) the independent financial adviser to Egana stating publicly in its opinion that the Special Deal Repayment is fair and reasonable and (ii) the Special Deal Repayment being approved by the Independent Egana Shareholders by way of a poll at the Egana EGM. In this connection, we, having taken into account the expected benefits to be brought by the Restructuring Proposal as discussed above and the fact that there is essentially no difference in the nature between the Special Deal Repayment and the debt repayments to other Participating Creditors as both of which will be made in accordance with the terms of the Debt Restructuring Agreement, are of the view that the Special Deal Repayment is fair and reasonable.

## LETTER FROM ACCESS CAPITAL

### RECOMMENDATION

Having considered the factors and reasons set out above and, in particular, the following:

- (i) the discharge and waiver of all indebtedness due to the Participating Creditors by the Egana Group immediately after Completion;
- (ii) part of the proceeds from the Subscription will be retained by Egana as working capital, which may be critical to the operations of the Egana Group's existing businesses;
- (iii) the improvement in the working capital and financial position of the Egana Group from a net deficit position to a net asset position upon Completion;
- (vi) the likelihood of a liquidation of Egana if it fails to restructure its indebtedness; and
- (v) there will unlikely be any return to the Egana Shareholders in case of a liquidation of Egana,

we consider that the Restructuring Proposal is in the interests of Egana and the Egana Shareholders as a whole and that the terms of the Restructuring Proposal, the Special Deal Repayment and the Whitewash Waiver are fair and reasonable so far as the Independent Egana Shareholders are concerned notwithstanding the resulting dilution effect on the shareholdings of the Independent Egana Shareholders. Accordingly, we would advise the Independent Egana Board Committee and the Independent Egana Shareholders that the Independent Egana Shareholders should vote in favour of the relevant resolutions to approve the Restructuring Proposal, the Special Deal Repayment and the Whitewash Waiver to be proposed at the Egana EGM.

Yours faithfully,  
For and on behalf of  
**Access Capital Limited**  
**Ambrose Lam**  
*Principal Director*

## 1. SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Egana Group as extracted from the relevant annual and interim reports of Egana is set out below:

**Results**

	<b>(Unaudited)</b>		<b>(Audited)</b>		
	<b>Six months ended</b>		<b>For the year ended</b>		
	<b>30 November</b>		<b>31 May</b>		
	<b>2006</b>	<b>2007</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<u>3,309,970</u>	<u>2,884,348</u>	<u>3,716,706</u>	<u>5,975,450</u>	<u>7,025,459</u>
Profit/(loss) before taxation	231,489	(1,243,303)	255,501	345,145	(1,820,372)
Taxation	<u>(25,594)</u>	<u>(21,893)</u>	<u>3,036</u>	<u>(5,923)</u>	<u>(119,821)</u>
Profit/(loss) before minority interests	205,895	(1,265,196)	258,537	339,222	(1,940,193)
Minority interests	<u>(19,872)</u>	<u>1,693</u>	<u>(26,272)</u>	<u>(34,265)</u>	<u>(19,215)</u>
Profit/(loss) attributable to shareholders	<u>186,023</u>	<u>(1,263,503)</u>	<u>232,265</u>	<u>304,957</u>	<u>(1,959,408)</u>
Dividends	<u>43,792</u>	<u>–</u>	<u>75,425</u>	<u>100,294</u>	<u>43,802</u>
Basic earning/(loss) per Egana Share (HK cents)	<u>14.20</u>	<u>(86.30)</u>	<u>19.31</u>	<u>23.85</u>	<u>(141.46)</u>
Dividends per Egana Share – Interim, paid (HK cents)	<u>3.00</u>	<u>–</u>	<u>2.50</u>	<u>2.80</u>	<u>3.00</u>
– Final, paid (HK cents)			<u>3.50</u>	<u>5.00</u>	<u>–</u>

## Assets and liabilities

	(Unaudited)		(Audited)		
	As at 30 November		As at 31 May		
	2006	2007	2005	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	6,441,097	4,343,890	4,799,109	6,576,933	4,789,715
Total liabilities	(4,006,369)	(5,378,363)	(2,866,433)	(4,366,359)	(4,462,756)
Minority interests	(6,345)	(4,148)	(276,181)	(337,491)	(5,699)
	<u>2,428,383</u>	<u>(1,038,621)</u>	<u>1,656,495</u>	<u>1,873,083</u>	<u>321,260</u>

## Notes:

1. There is no extraordinary item or exceptional item for the three years ended 31 May 2005, 2006 and 2007 and the six-month period ended 30 November 2006 and 2007.
2. Unqualified audit opinion was issued for the results of the Egana Group for the two years ended 31 May 2005 and 2006. Qualified audit opinion were issued for the results of the Egana Group for the year ended 31 May 2007, full text of which is set out in paragraph 2 of this appendix.

## 2. AUDITORS' REPORT AND AUDITED CONSOLIDATED FINANCIAL STATEMENT OF THE EGANA GROUP FOR THE YEAR ENDED 31 MAY 2007

- (a) Set out below is the auditors' report extracted from the annual report of Egana for the year ended 31 May 2007. In this section, reference to the page numbers are those appeared in the annual report of Egana for the year ended 31 May 2007.



### BAKER TILLY HONG KONG LIMITED

Certified Public Accountants

香港天華會計師事務所有限公司

#### TO THE SHAREHOLDERS OF EGANAGOLDPFEIL (HOLDINGS) LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

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

#### RESPONSIBILITIES OF THE DIRECTORS FOR THE ACCOUNTS

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

#### RESPONSIBILITIES OF AUDITORS

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

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

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the accounts. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the accounts, whether due to fraud or error.

In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the accounts.

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

## **BASIS OF DISCLAIMER OF OPINION**

### **1. Scope limitation – material sales transactions and receivable provision**

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

### **2. Fundamental uncertainty relating to the going concern basis**

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

**DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY THE ACCOUNTS**

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

**Baker Tilly Hong Kong Limited**

*Certified Public Accountants*

**Andrew David Ross**

**Practising Certificate Number P01183**

Hong Kong, 26th October, 2007"



- (b) Set out below is the audited consolidated profit and loss account, consolidated balance sheet, consolidated statement of changes in equity and consolidated cash flow statement of the Egana Group, and the balance sheet of Egana together with the notes to the financial statements of the Egana Group as extracted from pages 47 to 130 of the annual report of Egana for the year ended 31 May 2007. The page numbers referred to in this section are the page numbers of the annual report of the Egana for the year ended 31 May 2007.

**“CONSOLIDATED PROFIT AND LOSS ACCOUNT**

*(For the year ended 31st May, 2007)*

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

**CONSOLIDATED BALANCE SHEET***(As at 31st May, 2007)*

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

**CONSOLIDATED BALANCE SHEET***(As at 31st May, 2007)*

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

**BALANCE SHEET***(As at 31st May, 2007)*

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***(For the year ended 31st May, 2007)*

	<i>Notes</i>	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
Total equity, beginning of year		2,210,574	1,932,677
Share of an associated company's exchange translation reserve	34	2,503	325
Revaluation of listed available-for-sale financial assets	34	96,978	(16,714)
Exchange differences arising on translation of the accounts of foreign subsidiaries and associated companies	34	(19,486)	9,992
Net gain/(loss) recognised directly in equity		79,995	(6,397)
(Loss)/profit for the year	34	(1,940,193)	339,222
Total recognised (loss)/gain for the year*		(1,860,198)	332,825
Issuance of convertible bonds of a subsidiary	34	–	22,803
Acquisition of additional interests in subsidiaries	34	(522,803)	–
Realisation of reserves upon disposal of listed available-for-sale financial assets	34	(592)	(129)
Realisation of reserves upon disposal of unlisted available-for-sale financial assets	34	–	(11,324)
Realisation of reserves upon recognition of impairment loss on unlisted available-for-sale financial assets	34	(5,243)	–
Scrip and cash dividends	34	(115,326)	(80,681)
Dividends paid to minority shareholders	34	(339)	(9,167)
Shares issued upon conversion of convertible bonds	33	–	14,524
Conversion of convertible bonds	34	–	9,066
Shares issued upon exercise of share options	33	30,860	–
Shares issued under scrip dividend scheme	33	11,265	–
Shares issued in relation to privatisation of a subsidiary	33	136,066	–
Premium arising from exercise of share options	34	35,280	–
Premium arising from issue of shares in relation to privatisation of a subsidiary	34	376,902	–
Premium arising from issue of shares under scrip dividend scheme	34	30,577	–
Expenses incurred in connection with conversion of convertible bonds and issue of shares	34	(64)	(20)
Total equity, end of year		326,959	2,210,574
* Attributable to equity holders of the Company		(1,900,505)	303,395
Attributable to minority interests		40,307	29,430
		(1,860,198)	332,825

**CONSOLIDATED CASH FLOW STATEMENT***(For the year ended 31st May, 2007)*

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

**CONSOLIDATED CASH FLOW STATEMENT***(For the year ended 31st May, 2007)*

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

**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 registered office of the Company is located at P.O. Box 1787, 2nd Floor, One Capital Place, George Town, Grand Cayman, Cayman Islands, British West Indies.

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

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

**2. BASIS OF PREPARATION OF ACCOUNTS**

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

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

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

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

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



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

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

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

*Note a:* effective for annual periods beginning on or after 1st January, 2007

*Note b:* effective for annual periods beginning on or after 1st January, 2009

*Note c:* effective for annual periods beginning on or after 1st November, 2006

*Note d:* effective for annual periods beginning on or after 1st March, 2007

*Note e:* effective for annual periods beginning on or after 1st January, 2008

*Note f:* effective for annual periods beginning on or after 1st July, 2008

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

### 3. PRINCIPAL ACCOUNTING POLICIES

#### (a) Group accounting

##### (i) *Basis of consolidation*

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

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

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

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

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

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

(ii) *Business combinations*

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

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

(iii) *Associated companies*

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

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

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

(iv) *Minority interests*

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

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

(v) *Foreign currencies*

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

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

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

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

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

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

**(b) Fixed assets**

(i) *Freehold land*

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

(ii) *Buildings*

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

*(iii) Other fixed assets*

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

*(iv) Depreciation*

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

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

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

*(v) Gain or loss on disposal*

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

*(vi) Subsequent costs*

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

**(c) Assets under leases***(i) Finance leases*

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

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

*(ii) Operating leases*

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

**(d) Leasehold land**

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

**(e) Intangible assets***(i) Goodwill/Discount on acquisition*

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

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

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

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

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

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

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

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

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

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

(ii) *Trademarks*

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

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

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

(iii) *Research and development costs*

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

(iv) *Other intangible assets*

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

**(f) Impairment of assets other than financial assets**

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

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

(g) **Financial instruments**

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

(i) *Financial assets*

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

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

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

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.
- At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss account in the period in which they arise.

(b) Loans and receivables

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



## (c) Available-for-sale financial assets

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

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

(ii) *Impairment*

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

- a. significant financial difficulty of the debtor or obligor;
- b. the Group granting to the debtor or obligor, for economic or legal reasons relating to the debtor's or obligor's financial difficulty, a concession that the Group would not otherwise consider;
- c. it is becoming probable that the debtor or obligor will enter into bankruptcy or other financial reorganisation;
- d. the disappearance of an active market for that financial asset because of financial difficulties;
- e. observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including:
  1. adverse changes in the payment status of debtors or obligors in the Group;
  2. economic conditions that correlate with defaults on the assets in the Group.

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

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

#### Loans and receivables

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

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

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

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

#### Available-for-sale financial assets

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

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

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

(iii) *Financial liabilities and equity*

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

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

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

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

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

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

(b) Other financial liabilities

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

(c) Equity instruments

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

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

(iv) *Derivative financial instruments*

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

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

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

(v) *Embedded derivatives*

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

(vi) *Financial guarantee contracts*

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

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

(vii) *Derecognition*

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

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

**(h) Inventories**

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

**(i) Provisions**

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

*(i) Warranty provision*

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

*(ii) Restructuring provisions*

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

**(j) Employee benefits***(i) Employee leave entitlements*

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

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

*(ii) Profit sharing and bonus plans*

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

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

(iii) *Pension obligations*

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

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

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

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

(iv) *Share-based payments*

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

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

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

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

**(k) Taxation**

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

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

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

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

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

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

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

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

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

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

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

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

**(m) Turnover**

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

**(n) Revenue recognition**

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

**(i) Sale of goods**

Sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to customers which generally coincides with the time when the goods are delivered to the customers and title has passed. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

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

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

**(iii) Income from assignment of brandnames or trademarks**

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

**(iv) Commission income**

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

**(v) Franchising income**

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

**(vi) Inspection service income**

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

**(vii) Interest income**

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

**(viii) Rental income**

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

**(ix) Dividend income**

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



(o) **Borrowing costs**

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

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

(p) **Segment reporting**

In accordance with the Group's internal financial reporting structure, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

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

**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

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

**Critical accounting estimates and assumptions**

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

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

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

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

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

(c) *Allowances for inventories*

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

(d) *Impairment on goodwill and trademarks*

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

(e) *Taxation*

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

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

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

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

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

## 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

### **Currency risk**

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

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

**Credit risk**

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

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

**Cash flow interest rate risk**

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

**6. TURNOVER AND SEGMENT INFORMATION**

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

**(a) Primary reporting format – business segments**

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

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

- Timepieces - design, assembly, manufacturing, distribution and trading of timepieces and timepiece components
- Jewellery - design, assembly, manufacturing, distribution and trading of jewellery products
- Leather & lifestyle – design, assembly, manufacturing, distribution and trading of leather & lifestyle products
- Investments – investments in strategic investments, available-for-sale financial assets and investments held for trading. Strategic investments include investments in unlisted securities and closed-end funds which could bring medium or long-term synergetic benefits to the Group's businesses such as strategic alliance and partnership with various distribution business in Asia for furtherance of its business penetration in the region

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

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

## (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.

	<b>Year ended 31st May, 2007</b>	<b>Segment results</b>	<b>Capital expenditure</b>	<b>At 31st May, 2007</b>
	<b>Turnover</b>			<b>Total assets</b>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Europe	4,568,405	(43,691)	129,430	2,631,045
America	413,211	(121,475)	350	55,701
Asia Pacific	2,043,843	(1,429,403)	49,126	1,902,838
	<u>7,025,459</u>	<u>(1,594,569)</u>	<u>178,906</u>	4,589,584
Interests in associated companies				<u>200,131</u>
Total assets				<u>4,789,715</u>
	<b>Year ended 31st May, 2006</b>	<b>Segment results</b>	<b>Capital expenditure</b>	<b>At 31st May, 2006</b>
	<b>Turnover</b>			<b>Total assets</b>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Europe	4,242,487	337,039	262,962	2,963,847
America	242,140	(39,428)	2,211	86,159
Asia Pacific	1,490,823	174,455	27,380	3,365,466
	<u>5,975,450</u>	<u>472,066</u>	<u>292,553</u>	6,415,472
Interests in associated companies				<u>161,461</u>
Total assets				<u>6,576,933</u>

## 7. OTHER REVENUES

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

## 8. IMPAIRMENT LOSSES ON ASSETS

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

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

## 9. OPERATING (LOSS)/PROFIT

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

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



## 10. FINANCE COSTS

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

## 11. TAXATION

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

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

Hong Kong profits tax has been provided at 17.5% (2006: 17.5%) on the estimated assessable profit arising in or derived from Hong Kong for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year provided by subsidiaries with overseas operations at the rates of taxation prevailing in the countries in which the subsidiaries operated.

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

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

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

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

## 13. DIVIDENDS

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

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

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

## 14. (LOSS)/EARNINGS PER SHARE

## (a) Basic (loss)/earnings per share

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

## (b) Diluted (loss)/earnings per share

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

## (c) Reconciliation

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

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

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

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

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

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

## 16. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

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

2007

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

2006

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

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

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

## (b) Five highest paid individuals

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

	<b>2007</b>	<b>2006</b>
	<i>\$'000</i>	<i>\$'000</i>
Basic salaries, housing allowances, other allowances and benefits in kind	5,409	3,459
Bonuses	894	1,040
Post-retirement benefits	1,464	–
Compensation for loss of office	–	57
	<u>7,767</u>	<u>4,556</u>

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

	<b>Number of individuals</b>	
	<b>2007</b>	<b>2006</b>
\$1,500,001-\$2,000,000	–	1
\$2,000,001-\$2,500,000	1	–
\$2,500,001-\$3,000,000	2	1
	<u>3</u>	<u>2</u>

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

## 17. FIXED ASSETS

## Group

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

Notes:

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

	<b>2007</b>	<b>2006</b>
	<i>\$'000</i>	<i>\$'000</i>
In Hong Kong, held on:		
Leases of between 10 to 50 years	7,034	7,271
Outside Hong Kong, held on:		
Freehold	50,180	60,324
	<u>57,214</u>	<u>67,595</u>

- (b) The net book value of furniture and equipment and motor vehicles held under finance leases at 31st May, 2007 amounted to approximately \$29,199,000 (2006: \$9,396,000) and \$723,000 (2006: \$1,012,000) respectively.
- (c) At 31st May, 2007, certain freehold land and buildings with an aggregate net book value of approximately \$37,439,000 (2006: \$52,050,000) were pledged as security for banking facilities granted to certain subsidiaries of the Group in Europe (Note 37(b)).

## 18. LEASEHOLD LAND

### Group

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

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



## 19. INTANGIBLE ASSETS

## Group

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

*Notes:*

- (a) The net book value of a software system amounting to approximately \$6,655,000 (2006: \$1,489,000) included under intangible assets was held under finance leases at 31st May, 2007.
- (b) At 31st May, 2007, certain leasehold rights with an aggregate net book value of approximately \$18,036,000 (2006: \$16,875,000) were pledged as security for banking facilities granted to a subsidiary of the Group. (Note 37(b))
- (c) In accordance with HKAS 36 “Impairment of assets”, the Group completed its annual impairment test for trademarks and goodwill by comparing their recoverable amounts to their carrying amounts as at 31st May, 2007.

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

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

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

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

**20. DEFERRED TAX ASSETS/(LIABILITIES)**

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

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

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, 2005, as previously reported	(7,193)	3,734	3,379	96,111	1,234	(1,855)	23,072	118,482
Effect of adopting HKAS 17	60	-	-	-	-	1,855	-	1,915
Balance at 1st June, 2005, as restated	(7,133)	3,734	3,379	96,111	1,234	-	23,072	120,397
(Charge)/Credit to the profit and loss account for the year	1,154	125	262	16,820	(561)	-	(1,342)	16,458
Exchange adjustments	(10)	135	216	1,098	(3)	-	-	1,436
Balance at 31st May, 2006	(5,989)	3,994	3,857	114,029	670	-	21,730	138,291
(Charge)/Credit to the profit and loss account for the year	(2,050)	31	199	(76,509)	441	-	(842)	(78,730)
Exchange adjustments	(34)	487	295	(14,319)	64	-	-	(13,507)
Balance at 31st May, 2007	(8,073)	4,512	4,351	23,201	1,175	-	20,888	46,054

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

- (b) Deferred taxation is calculated in full on temporary differences under the balance sheet liability method using a principal taxation rate of 17.5% (2006:17.5%). Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred tax relates to the same fiscal authority. The following amounts are shown in the consolidated balance sheet:

	<b>Group</b>	
	<b>2007</b>	<b>2006</b>
	\$'000	\$'000
Deferred tax liabilities	(8,413)	(6,502)
Deferred tax assets	54,467	144,793
	<u>46,054</u>	<u>138,291</u>

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

## 21. INTERESTS IN SUBSIDIARIES

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

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

Notes:

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

	<b>Company</b>	
	<b>2007</b>	<b>2006</b>
	<i>\$'000</i>	<i>\$'000</i>
Amounts due from subsidiaries	2,375,722	1,788,757
Less: Impairment loss on amounts due from subsidiaries	(1,940,890)	–
	<u>434,832</u>	<u>1,788,757</u>

- (b) At 31st May, 2007, the Company guaranteed the payments and performance by several subsidiaries under certain license agreements pursuant to which the subsidiaries were licensees (Note 36).
- (c) At 31st May, 2007, the Company provided corporate guarantees to commercial banks and other institutions of approximately \$6,577,497,000 (2006: \$5,107,262,000) to secure banking and other facilities of certain subsidiaries (Notes 36 and 37(a)).
- (d) The underlying value of interests in subsidiaries was, in the opinion of the Directors, not less than the carrying value at 31st May, 2007.

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

Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
# Abel & Zimmermann GmbH & Co KG	Germany	EUR511,292	–	100	Manufacturing and distribution of jewellery
Bartelli (Holdings) Limited	British Virgin Islands	US\$1	–	100	Licensing of leather trademark
Bartelli Leather Products Limited	Hong Kong	\$10,000	–	100	Manufacturing and distribution of leather products
#@ Bartelli Leather Products (Shenzhen) Co. Ltd.	The People's Republic of China ("PRC")	US\$500,000	–	100	Manufacturing of leather products
#@ Calibre Jewellery (Shenzhen) Co. Ltd.	The PRC	US\$600,000	–	100	Manufacturing of jewellery
Centreline Group Limited	British Virgin Islands	US\$1	–	100	Investment holding and licensing of trademarks
# Chromachron A.G.	Switzerland	CHF300,000	–	100	Inactive
# DK Digital GmbH	Germany	EUR111,100	–	84.84	Distribution of electronics consumer products
Eco-Haru (Far East) Limited	Hong Kong	\$500,000	–	100	Distribution of timepieces, jewellery and leather and lifestyle products
Eco-Haru Mfr. Holdings Limited	British Virgin Islands	US\$1	100	–	Investment holding
Eco-Haru Property Investments Limited	Hong Kong	\$2	–	100	Property holding
Eco Swiss China Time Limited	Hong Kong	\$26,000,000	100	–	Inactive
Egana.Com Inc.	British Virgin Islands	US\$100	–	100	Investment holding
# Egana Deutschland GmbH	Germany	EUR5,113,430	–	100	Distribution of watches
Egana Far East Procurement Services (Holdings) Limited	Cayman Islands	\$15,000,000	100	–	Procurement
Egana Finance Limited	Hong Kong	\$2	100	–	Group treasury

**APPENDIX I**
**FINANCIAL INFORMATION ON THE EGANA GROUP**

Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
# EganaGoldpfeil Accessoires GmbH (previously known as “Goldpfeil GmbH”)	Germany	EUR3,600,000	–	100	Design, manufacturing and distribution of luxury leather goods
# EganaGoldpfeil Benelux Jewel B.V.	The Netherlands	EUR18,000	–	100	Distribution of jewellery
# EganaGoldpfeil Benelux Time B.V.	The Netherlands	EUR18,000	–	100	Distribution of watches
# EganaGoldpfeil Europe (Holdings) GmbH	Germany	EUR2,600,000	100	–	Investment holding
# EganaGoldpfeil Italia s.r.l.	Italy	EUR25,823	–	100	Distribution of watches
#@ EganaGoldpfeil (Shenzhen) Trading Company Limited	The PRC	US\$330,000	–	100	Import, export and distribution of timepieces, jewellery, leather products, fashions and accessories and optical products
# EganaGoldpfeil (Switzerland) Limited	Switzerland	CHF1,000,000	–	100	Distribution of watches and jewellery
Egana-Haru Mfr. Corp. Limited	Hong Kong	\$2	–	100	Design, assembly, distribution and licensee of watches
# Egana India Private Limited	India	US\$500,000	–	90	Distribution of watches and jewellery
Egana Investments (Pacific) Limited	Cook Islands	US\$1	–	100	Investment holding and licensing operation
* Egana Jewellery & Pearls Limited (“EJPL”)	Cayman Islands/ Hong Kong	\$123,060,572	72.73	27.27	Investment holding
Egana Jewelry & Pearls (America) Corp.	The United States of America	US\$881,000	–	100	Design and distribution of jewellery
# Egana Juwelen & Perlen Handels GmbH	Austria	EUR36,336	–	100	Distribution of jewellery
Egana Marketing (Suisse) Inc.	Cook Islands	US\$1	–	100	Provision of marketing and consultancy services

Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Egana of Switzerland (America) Corp.	The United States of America	US\$16,517,458	100	–	Distribution of watches
Egana of Switzerland (Far East) Limited	Hong Kong	\$11,500,000	–	100	Design, assembly and distribution of watches
# Egana Uhrenvertriebs GmbH	Austria	EUR36,000	–	100	Distribution of watches
# Eurochron GmbH	Germany	EUR2,556,459	–	100	Design, manufacturing and distribution of clocks
# European Technology & Logistic Center GmbH	Germany	EUR500,000	–	100	Technology and logistic center
Everstone Limited	Hong Kong/ The PRC	\$100	–	100	Subcontracting and manufacturing of jewellery
Funasia Investments Limited	British Virgin Islands	US\$14,000,001	–	100	Investment holding
Glorious Concept Limited	British Virgin Islands	US\$10	–	100	Investment holding
Goldpfeil Distribution and Services Limited	Hong Kong	\$500,000	–	100	Distribution and retailing of leather products
# Goldpfeil Genève S.A.	Switzerland	CHF100,000	–	100	Distribution of watches
# Guthmann + Wittenauer Schmuck GmbH	Germany	EUR1,500,000	–	100	Manufacturing and distribution of jewellery
# Haru Holding & Management GmbH	Germany	EUR2,300,850	–	100	Investment holding
# Haru Japan Corporation, Inc.	Japan	JP¥30,000,000	–	100	Distribution of timepieces, jewellery, and sourcing agent for pearls
Jacquelin Designs Enterprises, Inc.	The United States of America	–	–	100	Design and distribution of jewellery
Junghans Asia Limited	Hong Kong	\$1,000	–	100	Distribution of watches
Junghans Asia (Holdings) Limited	British Virgin Islands	US\$100	–	100	Investment holding

Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Junghans Group Limited	British Virgin Islands	US\$1	–	100	Investment holding
# Junghans Uhren GmbH	Germany	EUR5,112,919	–	100	Manufacturing and distribution of watches
Kai-Yin Lo Limited	Hong Kong	\$2,600,000	–	100	Design, manufacturing and retailing of jewellery
# Keimothai Limited	Thailand	Baht81,000,000	–	100	Sourcing, manufacturing and distribution of jewellery
# Lorica Sud s.r.l.	Italy	EUR900,800	–	70	Manufacturing and distribution of man-made leather goods
Oro Design Limited	Hong Kong	\$10,000	–	100	Design, manufacturing, distribution and licensee of jewellery
P.C. International Marketing Limited	British Virgin Islands/France	US\$1	100	–	Licensing of watches and jewellery trademarks/brandnames
Pioneer Ventures Limited	Hong Kong	\$100	–	100	General trading and quality inspection
# Porzellan-Manufaktur Ludwigsburg GmbH	Germany	EUR1,000,000	–	87.5	Manufacturing of porcelain
# Rebner GmbH	Germany	EUR25,564	–	100	Investment holding
# Salamander in Austria GmbH	Austria	EUR4,500,000	–	100	Retailing of shoes
# Salamander CR spol.s.r.o.	Czech Republic	CZK18,222,000	–	100	Retailing of shoes
# Salamander France S.A.S.	France and Belgium	EUR4,458,600	–	100	Retailing of shoes
# Salamander GmbH	Germany	EUR8,000,000	–	100	Retailing of shoes
# Salamander Hungaria Kft.	Hungary	HUF662,880,000	–	99.849	Retailing of shoes
# Salamander in Russland GmbH	Russia	RUB85,065,050	–	100	Retailing of shoes
# Salamander Polska Sp.z.o.o.	Poland	PLN2,808,000	–	100	Retailing of shoes



Name	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
# Sioux GmbH	Germany	EUR7,669,000	–	100	Manufacturing and distribution of footwear
Time Success Industrial Limited	Hong Kong	\$2	–	100	Property holding
Towercham Limited	Island of Nevis, West Indies	STG2	–	100	Provision of marketing and consultancy services
# Zeitmesstechnik GmbH	Germany	EUR99,702	–	100	Provision of timepiece repair and maintenance services

*Notes:*

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

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

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

@ *Wholly foreign-owned enterprise incorporated in the PRC*

## 22. INTERESTS IN ASSOCIATED COMPANIES

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

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

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

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

\* *Listed on the Stock Exchange*

- (a) In April 2007, the Group increased its interest in JOOP! from 33.33% to 50% at a cost of approximately \$23,164,000.
- (b) The financial statements of Tonic are made up to 31st March each year. For the purpose of applying the equity method of accounting the financial statements of Tonic for the year ended 31st March, 2007 have been used and appropriate adjustments have been made for the effects of significant transactions between that date and 31st May, 2007.
- (c) Summarised financial information in respect of the Group's associated companies is set out below:

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

## 23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

## Notes:

## (a) Strategic investments:

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

- (i) At 31st May, 2007, the Group had strategic investment in a private company whose principal activities are investment holding, trading of consumer products, rendering of marketing promotion service, distribution and trading of fashion accessory products.
- (ii) At 31st May, 2007, the Group had strategic investment in a private closed-end fund, which provided opportunity for the Group to explore Junghans systems watch program extension in Asia, and to exploit distribution alliance partners for the Group's branded products in the Greater China markets.
- (iii) During the year, the Directors reviewed the carrying amounts of the strategic investments. In light of the currently available information and the change of the Group's strategic plans, the Directors considered that the strategic investments have been fully impaired as at 31st May, 2007. Accordingly, an amount of impairment loss of \$5,243,000 was debited to available-for-sale financial assets revaluation reserve to reverse the revaluation surplus recognised in previous years, and an amount of impairment loss of \$89,446,000 was recognised in the profit and loss account.

## (b) Others:

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

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

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

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

#### 24. INVENTORIES

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

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

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

#### 25. ACCOUNTS RECEIVABLE, NET

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

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

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

## 26. INVESTMENTS HELD FOR TRADING

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

## 27. DERIVATIVE FINANCIAL INSTRUMENTS

	Group			
	2007		2006	
	Assets	Liabilities	Assets	Liabilities
	\$'000	\$'000	\$'000	\$'000
Forward foreign exchange contracts	1,760	2,925	–	11,549
Currency options	–	78,431	186	27,156
Forward gold and silver contracts	–	1,712	7,818	627
Silver options	75	–	2,608	–
Interest rate swaps	5,429	128,278	5,859	267
	<u>7,264</u>	<u>211,346</u>	<u>16,471</u>	<u>39,599</u>

Analysed as:

Non-current	3,980	129,398	6,045	2,029
Current	3,284	81,948	10,426	37,570
	<u>7,264</u>	<u>211,346</u>	<u>16,471</u>	<u>39,599</u>

	Company			
	2007		2006	
	Assets	Liabilities	Assets	Liabilities
	\$'000	\$'000	\$'000	\$'000
Forward foreign exchange contracts	250	9	–	1,820
Interest rate swaps	1,437	10,261	123	268
	<u>1,687</u>	<u>10,270</u>	<u>123</u>	<u>2,088</u>

Analysed as:

Non-current	865	10,261	123	899
Current	822	9	–	1,189
	<u>1,687</u>	<u>10,270</u>	<u>123</u>	<u>2,088</u>

- (i) During the year, the Group entered into forward foreign exchange and gold contracts in order to hedge against firmly committed commercial transactions. The contracts were arranged with commercial banks and other institutions. In addition, the Group has also bought and sold some currency options. The Group had, at 31st May, 2007, outstanding forward foreign exchange contracts to buy EUR, USD and CNY and sell EUR and USD currencies with a notional principal value of approximately EUR400,000 (2006: EUR6,964,000) and US\$161,300,000 (2006: US\$21,060,000) and CNY4,000,000 (2006: CNYnil) and EUR14,185,000 (2006: EUR18,820,000) and US\$59,600,000 (2006: US\$30,500,000) equivalent respectively, outstanding currency option to buy Euro call with a notional principal value of EURnil (2006: EUR15,650,000), outstanding forward gold contracts to purchase gold and silver with a notional principal value of approximately US\$16,606,000 (2006: US\$17,292,000) equivalent, written silver option to sell silver with a

notional principal value of US\$1,820,000 (2006: US\$3,217,000) and written currency options to sell EUR call with a notional principal value of approximately EUR119,546,000 (2006: EUR76,012,500), written currency options to sell EUR, JPY and CHF put with a notional principal value of approximately EUR7,000,000 (2006: EUR51,910,000) and JPY1,346,000,000 (2006: JPY560,000,000) and CHFnil (2006: CHF1,400,000) equivalent respectively. Such outstanding contracts were scheduled to settle or expire, through April, 2009.

- (ii) At 31st May, 2007, the Group had outstanding interest rate swap contracts with a notional amount of approximately \$2,929,600,000 (2006: \$360,000,000). Such outstanding contracts were scheduled to settle or expire, through March, 2012.
- (iii) The derivative financial instruments are measured at fair values at each balance sheet date. Their fair values are based on estimated values provided by financial institutions for equivalent instruments at the balance sheet date.

## 28. ACCOUNTS PAYABLE, ACCRUALS AND OTHER PAYABLES

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

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

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

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

## 29. PROVISIONS

## Group

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

## Notes:

- (a) Warranty provision: The Group provided warranties on certain products and undertook to repair or replace items that failed to perform satisfactorily. The provision was recognised during the year for expected warranty claims based on past experience of the level of repairs and returns.
- (b) Restructuring provision: The restructuring provision was related to the restructuring plan of certain overseas subsidiaries of the Group.
- (c) The Directors consider that the carrying amounts of provisions approximate their fair values.

## 30. SHORT-TERM BANK BORROWINGS

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

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

## 31. LONG-TERM LIABILITIES

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

Notes:

(a) Long-term bank borrowings:

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

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

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

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



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

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

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

- (c) Obligations under finance leases:

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

The present value of finance lease liabilities was as follows:

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

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

## 32. PENSIONS AND OTHER POST RETIREMENT OBLIGATIONS

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

*Notes:*

## (a) Pensions-defined contribution plan

The Group has participated in the defined Mandatory Provident Fund scheme in Hong Kong since 1st December, 2000 and made monthly contributions to the scheme based on 5%-7% of the employees' basic salaries. The contributions are subject to a maximum of \$1,000 per employee per month and thereafter contributions are voluntary. During the year ended 31st May, 2007, the Group's employer's contribution to the scheme was approximately \$3,690,000 (2006: \$3,817,000). The assets of the scheme are held separately from those of the Group and are managed by independent professional fund managers.

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

## (b) Pensions-defined benefits plans

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

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

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

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

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

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

All the charges were included in administrative expenses.

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

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

The history of experience adjustments is as follows:–

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

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

## 33. SHARE CAPITAL

Share capital comprised:

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

Notes:

- (a) Options were exercised by a Director and employees during the year which resulted in 30,860,400 new shares of the Company being issued at weighted average exercise price amounting to \$2.14, totalling approximately \$66,140,000. The difference between the par value of shares issued and the proceeds from the exercise of the options totalling approximately \$35,280,000, was recognised as share premium. The weighted average share price at date of exercise for share option exercised during the year was \$4.10.
- (b) During the year, the Company issued a total of 11,265,432 new ordinary shares of \$1 each under scrip dividend scheme with a share price of \$3.714.
- (c) During the year, the Company issued a total of 136,065,641 new ordinary shares of \$1 each in relation to the privatisation of a subsidiary at a share price of \$3.77.

#### Share options

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

Notes:

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

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

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

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

## 34. RESERVES

## Group

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

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

## Group

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

	Attributable to equity holders of the Company												
	Convertible			Retained profits	Available-for-sale financial assets		Capital redemption reserve	Goodwill	Legal reserve	Other reserves	Total	Minority interests	Total
	Share premium account	bonds equity portion	Exchange translation reserve		Revaluation reserve	Revaluation reserve							
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Beginning of year, as previously reported	363,311	13,035	(205,154 )	624,037	2,438	-	40,801	(454,108 )	270	580	385,210	276,181	661,391
Effect of adopting HKAS 39													
“Financial Instruments: Recognition and Measurement” (“HKAS 39”)	-	-	-	-	(2,438 )	2,438	-	-	-	-	-	-	-
Beginning of year, as restated	363,311	13,035	(205,154 )	624,037	-	2,438	40,801	(454,108 )	270	580	385,210	276,181	661,391
Premium arising from conversion of convertible bonds	8,862	(13,035 )	-	-	-	-	-	-	-	-	(4,173 )	-	(4,173 )
Expenses incurred in connection with issue of shares	(20 )	-	-	-	-	-	-	-	-	-	(20 )	-	(20 )
Issuance of convertible bonds of a subsidiary	-	22,803	-	-	-	-	-	-	-	-	22,803	-	22,803
Conversion of convertible bonds of a subsidiary	-	(22,803 )	-	(10,964 )	-	-	-	-	-	-	(33,767 )	47,006	13,239
Acquisition of additional interests in a subsidiary	-	-	-	1,783	-	-	-	-	-	-	1,783	(1,783 )	-
Disposal of listed available-for-sale financial assets	-	-	-	-	-	(129 )	-	-	-	-	(129 )	-	(129 )
Disposal of unlisted available-for-sale financial assets	-	-	-	-	-	(11,324 )	-	-	-	-	(11,324 )	-	(11,324 )
Reserve attributable to minority interests upon disposal of available-for-sale financial assets	-	-	-	-	-	4,176	-	-	-	-	4,176	(4,176 )	-
Share of exchange translation reserve of an associated company	-	-	325	-	-	-	-	-	-	-	325	-	325
Revaluation of listed available-for-sale financial assets	-	-	-	-	-	(16,714 )	-	-	-	-	(16,714 )	-	(16,714 )
Minority share of revaluation deficit of listed available-for-sale financial assets	-	-	-	-	-	5,313	-	-	-	-	5,313	(5,313 )	-
Profit for the year ended 31st May, 2006	-	-	-	304,957	-	-	-	-	-	-	304,957	34,265	339,222
Interim dividend paid	-	-	-	(36,003 )	-	-	-	-	-	-	(36,003 )	-	(36,003 )
Final dividend paid	-	-	-	(44,679 )	-	-	-	-	-	-	(44,679 )	-	(44,679 )
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	-	-	(9,167 )	(9,167 )
Exchange difference arising from translation of overseas subsidiaries' and associated companies' financial statements	-	-	9,515	-	-	-	-	-	-	-	9,515	478	9,993
End of year	<u>372,153</u>	<u>-</u>	<u>(195,314 )</u>	<u>839,131</u>	<u>-</u>	<u>(16,240 )</u>	<u>40,801</u>	<u>(454,108 )</u>	<u>270</u>	<u>580</u>	<u>587,273</u>	<u>337,491</u>	<u>924,764</u>
Representing:													
2006 Final dividend proposed				64,291									
Others				774,840									
Retained profits, end of year				<u>839,131</u>									

## Company

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



**APPENDIX I**
**FINANCIAL INFORMATION ON THE EGANA GROUP**

	Year ended 31st May, 2006							
	Share premium account \$'000	Convertible bonds equity portion \$'000	Retained profits \$'000	Revaluation reserve \$'000	Available-for- sale financial	Capital redemption reserve \$'000	Other reserve \$'000	Total \$'000
					assets revaluation reserve \$'000			
Beginning of year, as previously reported	363,311	13,035	47,741	(2,263)	-	40,801	457	463,082
Effect of adopting HKAS 39	-	-	-	2,263	(2,263)	-	-	-
Beginning of year, as restated	363,311	13,035	47,741	-	(2,263)	40,801	457	463,082
Premium arising from conversion of convertible bonds	8,862	(13,035)	-	-	-	-	-	(4,173)
Expenses incurred in connection with issue of shares	(20)	-	-	-	-	-	-	(20)
Revaluation of listed available-for-sale financial assets	-	-	-	-	280	-	-	280
Disposal of unlisted available-for-sale financial assets	-	-	-	-	336	-	-	336
Profit for the year	-	-	102,055	-	-	-	-	102,055
Dividend paid	-	-	(80,681)	-	-	-	-	(80,681)
End of year	<u>372,153</u>	<u>-</u>	<u>69,115</u>	<u>-</u>	<u>(1,647)</u>	<u>40,801</u>	<u>457</u>	<u>480,879</u>
Representing:								
2006 Final dividend proposed			64,291					
Other			4,824					
Retained profits, end of year			<u>69,115</u>					

## 35. CONSOLIDATED CASH FLOW STATEMENT

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

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

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

## (c) Acquisition of subsidiaries:

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

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

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

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

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

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

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

(d) Privatisation of a subsidiary:

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

Expenses incurred for privatisation of the subsidiary are as follows:

	<b>2007</b>	<b>2006</b>
	<i>\$'000</i>	<i>\$'000</i>
Direct costs incurred	8,392	–
Cash paid out under cash alternative for redemption of shares	599	–
	<u>          </u>	<u>          </u>
	8,991	–
	<u>          </u>	<u>          </u>

Premium on deemed acquisition of additional interests in EJPL:

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

(e) Analysis of cash and cash equivalents:

**Group**

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

- (i) Cash at banks earn interest at floating rates based on daily bank deposit rates.
- (ii) Promissory notes with maturity within three months represented receivables from certain independent third parties which were unsecured and bore interest at commercial rates. The above promissory notes receivable as at 31st May, 2007 were all settled in the period from June to August 2007.
- (iii) The Directors consider that the carrying amounts of the cash and bank balances and promissory notes approximate their fair values.

**(f) Non-Cash transactions**

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

**36. CONTINGENT LIABILITIES**

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

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

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

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

**37. BANKING FACILITIES**

- (a) At 31st May, 2007, the Group's banking facilities for bank borrowings and trade financing were secured by unconditional and continuing corporate guarantee provided by the Company and cross guarantees among its subsidiaries (*Note 21(c)*).
- (b) At 31st May, 2007, certain land and buildings (*Note 17(c)*), leasehold rights (*Note 19(b)*) and inventories (*Note 24*) were pledged as security for banking facilities granted to certain overseas subsidiaries of the Group.

## 38. COMMITMENTS

## (a) Commitments under operating leases

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

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

## (b) Commitments under license agreements

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

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

## (c) Purchase commitments

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

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

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

## 39. RELATED PARTY AND CONNECTED TRANSACTIONS

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

## (a) Related party transactions

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

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



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

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

	<b>2007</b>	<b>2006</b>
	<i>\$'000</i>	<i>\$'000</i>
Salaries and other short-term employees benefits	26,621	21,853
Termination benefits	61	126
Post-employment benefits	<u>2,278</u>	<u>1,260</u>
	<u><b>28,960</b></u>	<u><b>23,239</b></u>

**(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:

	<b>2007</b>	<b>2006</b>
	<i>\$'000</i>	<i>\$'000</i>
Lorica Sud s.r.l:		
Purchases from Kuraray <sup>(1)</sup>	<u>30,420</u>	<u>26,839</u>

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

- (c) At 31st May, 2007, the amount due to a Director was unsecured, non-interest bearing and repayable within one year.
- (d) At 31st May, 2007, loan from a minority shareholder was unsecured, bore interest at commercial lending rates and repayable within one year.

**40. POST-BALANCE SHEET EVENTS**

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

- (a) On 15th June, 2007, the Company entered into a 3-year loan agreement with a syndicate of banks for a term loan facility of \$1 billion (“\$1 billion Loan Facility”). The proceeds of the \$1 billion Loan Facility were applied for refinancing existing bank loans of approximately \$300 million and for general working capital requirements.
- (b) On 7th August, 2007, the Company appointed KPMG to conduct an independent review of the Group’s financial position which encompassed a review of the Group’s receivables. In light of the findings by KPMG, the Directors believe that the recoverability of certain receivables totalling approximately \$1,010 million, which arose from transactions in June and July 2007, is sufficiently uncertain as to make it likely that a full provision of approximately \$1,010 million will need to be made in the Group’s accounts for the next financial year ending 31st May, 2008.
- (c) In August 2007, a leasehold property situated in Hong Kong with a net book value of approximately \$1,314,000 as at 31st May, 2007 was disposed of to a third party for gross cash consideration, before deducting transaction costs, of approximately \$2,730,000.
- (d) In August 2007, the Directors decided to divest certain Hong Kong listed equity securities, with a view to focusing the Group’s resources on its core businesses and improving the Group’s liquidity position. Accordingly, the Group’s entire interest in Tonic was disposed of for a gross cash consideration, before deducting any transaction costs, of approximately \$32,849,000 in September 2007. The carrying amount of the Group’s interests in Tonic was approximately \$105,626,000 as at 31st May, 2007. Moreover, certain Hong Kong listed equity securities, which were included in the available-for-sale financial assets, with a carrying amount of approximately \$39,697,000 as at 31st May, 2007 were sold for an aggregate gross cash consideration, before deducting transaction costs, of approximately \$39,256,000 subsequent to 31st May, 2007 and up to 25th October, 2007.

- (e) On 21st September, 2007, Lifestyle, a company listed on the Stock Exchange, submitted a non-binding term sheet to the Company and PIL, a controlling shareholder of the Company, concerning the proposed acquisition by Lifestyle of approximately 29.67% of the shares in the Company held by PIL through PIL's wholly-owned subsidiary, Joint Asset International Limited (the "Joint Asset Shares") and the proposed subscription by Lifestyle of convertible bonds to be issued by the Company in consideration of approximately \$880 million. Details of the proposed acquisition of Joint Asset Shares and the proposed subscription for convertible bonds were set out in the Company's public announcement dated 2nd October, 2007.
- (f) On 23rd September, 2007, the Company entered into an agreement with a wholly-owned subsidiary of Lifestyle for a loan of \$300 million (the "Bridging Loan"). The Bridging Loan, which was drawn down in full on 24th September, 2007, has a term of four months from 24th September, 2007 and is secured by the following:
  - (i) a charge over the equity interest in P.C. International Marketing Limited ("PCIM"), a wholly owned subsidiary of the Company holding and operating the brand "Pierre Cardin", and a debenture over the assets of PCIM;
  - (ii) a charge over the Group's leasehold properties situated in Hong Kong with a net book value of \$25,934,000 as at 31st May, 2007;
  - (iii) charges over the bank accounts in which the Bridging Loan funds are held; and
  - (iv) a charge over the Joint Asset Shares.

#### 41. COMPARATIVE FIGURES

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

#### 42. APPROVAL OF THE ACCOUNTS

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

### 3. UNAUDITED INTERIM RESULTS

Set out below is the unaudited interim results of the Egana Group for the six months ended 30 November 2007 as extracted from pages 9 to 35 of the interim financial report of Egana. The page numbers referred to in this section are the page numbers of the aforesaid interim report of Egana.

“The board of directors (the “Board” or the “Directors”) of EganaGoldpfeil (Holdings) Limited (“EganaGoldpfeil” or 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, 2007 together with the comparative figures for the six months ended 30th November, 2006 which are summarised as under. These results have been reviewed by the Audit Committee of the Company but not by the auditors.

#### UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Six months ended	
		30th November, 2007 (Unaudited) HK\$'000	30th November, 2006 (Unaudited) HK\$'000
Turnover	2	2,884,348	3,309,970
Cost of sales		<u>(1,666,169)</u>	<u>(1,990,605)</u>
Gross profit		1,218,179	1,319,365
Other revenues		93,875	64,582
Distribution costs		(855,238)	(716,706)
Administrative expenses		(566,957)	(356,104)
Impairment losses on assets	3	<u>(1,011,067)</u>	<u>(3,137)</u>
Operating (loss)/profit		(1,121,208)	308,000
Finance costs		<u>(131,207)</u>	<u>(89,786)</u>
(Loss)/profit before share of profit of associated companies		(1,252,415)	218,214
Share of profit of associated companies		<u>9,112</u>	<u>13,275</u>
(Loss)/profit before taxation	2, 5	(1,243,303)	231,489
Taxation	6	<u>(21,893)</u>	<u>(25,594)</u>
(Loss)/profit for the period		<u><u>(1,265,196)</u></u>	<u><u>205,895</u></u>
Attributable to:			
Equity holders of the Company		(1,263,503)	186,023
Minority interests		<u>(1,693)</u>	<u>19,872</u>
		<u><u>(1,265,196)</u></u>	<u><u>205,895</u></u>
Dividends	7	<u><u>–</u></u>	<u><u>43,792</u></u>
(Loss)/earnings per share	8		
Basic		<u><u>(86.30) cents</u></u>	<u><u>14.20 cents</u></u>
Diluted		<u><u>N/A</u></u>	<u><u>14.04 cents</u></u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months ended	
	30th November, 2007 (Unaudited) <i>HK\$'000</i>	30th November, 2006 (Unaudited) <i>HK\$'000</i>
Opening balance – Total equity	326,959	2,210,574
(Deficit)/surplus on revaluation of available-for-sale financial assets	(80,274)	54,311
Exchange differences arising from translation of the financial statements of foreign subsidiaries and associated companies	(13,970)	7,937
Share of exchange translation reserve of an associated company	151	37
Net (loss)/gain recognised directly in equity	(94,093)	62,285
(Loss)/profit for the period	(1,265,196)	205,895
Total recognised (loss)/gain for the period*	(1,359,289)	268,180
Realisation of reserves upon disposal of available-for-sale financial assets	(2,141)	–
Deemed acquisition of additional interests in a subsidiary	–	(521,958)
Shares issued upon exercise of share options	–	17,450
Shares issued upon privatisation of a subsidiary	–	136,066
Premium arising from issue of shares in relation to exercise of share options and privatisation of a subsidiary	–	396,272
Final dividends	–	(71,524)
Dividends paid to minority interests	(2)	(332)
Closing balance – Total equity	<u>(1,034,473)</u>	<u>2,434,728</u>
* Attributable to equity holders of the Company	(1,357,740)	227,276
Attributable to minority interests	(1,549)	40,904
	<u>(1,359,289)</u>	<u>268,180</u>

## CONSOLIDATED BALANCE SHEET

		As at 30th November, 2007 (Unaudited) HK\$'000	As at 31st May, 2007 (Audited) HK\$'000
	<i>Notes</i>		
<b>Non-current assets</b>			
Fixed assets	9	527,255	467,305
Leasehold land	10	18,728	20,214
Intangible assets	11	683,524	651,526
Deferred tax assets		54,947	54,467
Interests in associated companies		123,992	200,131
Available-for-sale financial assets	12	47,559	186,684
Derivative financial instruments	13	–	3,980
		<hr/>	<hr/>
		1,456,005	1,584,307
<b>Current assets</b>			
Inventories		1,502,763	1,418,799
Accounts receivable, net	14	413,563	709,546
Deposits, prepayments and other receivables		387,360	332,440
Due from associated companies		26,439	34,431
Investments held for trading		135	123
Derivative financial instruments	13	–	3,284
Cash and cash equivalents		557,625	706,785
		<hr/>	<hr/>
		2,887,885	3,205,408
<b>Current liabilities</b>			
Accounts payable	15	(238,213)	(658,016)
Accruals and other payables		(548,547)	(454,998)
Bills payable		–	(168,146)
Provisions		(104,501)	(55,103)
Derivative financial instruments	13	(86,294)	(81,948)
Short-term bank borrowings	16	(1,675,210)	(1,291,934)
Short-term other loans		(379,407)	–
Current portion of long-term bank borrowings	16	(1,980,603)	(383,412)
Current portion of other long-term liabilities		(3,290)	(77,730)
Current portion of obligations under finance leases		(17,263)	(13,208)
Current portion of pensions and other post retirement obligations		(11,324)	(16,938)
Due to associated companies		(103)	(2,475)
Due to a Director		–	(42)
Loan from a minority shareholder		(1,584)	(1,442)
Taxation payable		(34,419)	(17,719)
		<hr/>	<hr/>
		(5,080,758)	(3,223,111)

## CONSOLIDATED BALANCE SHEET

		As at 30th November, 2007 (Unaudited) <i>HK\$'000</i>	As at 31st May, 2007 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
<b>Net current liabilities</b>		<u>(2,192,873)</u>	<u>(17,703)</u>
<b>Total assets less current liabilities</b>		<u>(736,868)</u>	<u>1,566,604</u>
<b>Non-current liabilities</b>			
Long-term bank borrowings	<i>16</i>	–	(838,234)
Other long-term liabilities		(34,184)	(38,899)
Pensions and other post retirement obligations		(254,693)	(224,701)
Derivative financial instruments	<i>13</i>	–	(129,398)
Deferred tax liabilities		<u>(8,728)</u>	<u>(8,413)</u>
		<u>(297,605)</u>	<u>(1,239,645)</u>
<b>Net (liabilities)/assets</b>		<u><u>(1,034,473)</u></u>	<u><u>326,959</u></u>
<b>Capital and reserves</b>			
Share capital	<i>17</i>	1,464,001	1,464,001
Reserves	<i>18</i>	<u>(2,502,622)</u>	<u>(1,142,741)</u>
<b>Equity attributable to equity holders of the Company</b>		(1,038,621)	321,260
<b>Minority interests</b>	<i>18</i>	<u>4,148</u>	<u>5,699</u>
<b>Total Equity</b>		<u><u>(1,034,473)</u></u>	<u><u>326,959</u></u>

## CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	30th November, 2007 (Unaudited) <i>HK\$'000</i>	30th November, 2006 (Unaudited) <i>HK\$'000</i>
Cash (used in)/generated by operations	(311,239)	202,690
Interest paid	(72,530)	(80,155)
Tax paid	(13,704)	(30,732)
Tax refund	10,026	5,735
	<hr/>	<hr/>
Net cash (used in)/from operating activities	(387,447)	97,538
Net cash used in investing activities	(881,774)	(45,008)
Net cash from/(used in) financing activities	1,107,576	(192,266)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(161,645)	(139,736)
Cash and cash equivalents at 1st June, 2007/1st June, 2006	706,785	1,385,251
Effect of foreign exchange rate changes	12,485	3,198
	<hr/>	<hr/>
Cash and cash equivalents at 30th November, 2007/30th November, 2006	<u>557,625</u>	<u>1,248,713</u>
Analysis of cash and cash equivalents:		
Cash and bank balances	557,625	427,795
Promissory notes	–	820,918
	<hr/>	<hr/>
	<u>557,625</u>	<u>1,248,713</u>



## NOTES TO THE ACCOUNTS

### 1. Basis of preparation and principal accounting policies

In the annual report of the Company for the year ended 31st May, 2007, the auditors stated that they were unable to form an opinion as to whether the accounts of the Group gave a true and fair view of the state of affairs of the Company and of the Group as at 31st May, 2007 and of the Group's loss and cash flows for the year then ended because of the scope limitation on material sales transactions and receivable provision, and the fundamental uncertainty relating to the Company's and the Group's ability to continue as a going concern.

In preparing the accounts for the six months ended 30th November, 2007, the Directors have given careful consideration to the future liquidity of the Group in light of the Group incurring a consolidated net loss attributable to the equity holders of the Company of approximately HK\$1.3 billion for the six months ended 30th November, 2007 and consolidated net current liabilities of approximately HK\$2.2 billion as at 30th November, 2007. Subsequent to 31st May, 2007, most of the Group's bankers suspended their credit facilities to the Group. As at the date of approval of interim results for the six months ended 30th November, 2007, the Group is unable to meet all of its obligations to financial creditors when due. Accordingly, the Group has fundamental uncertainty to continue as a going concern. The Group's liquidity and its ability to meet its operating costs are dependent on the outcome of the financial restructuring proposal (the "Lifestyle Proposal") made by Lifestyle International Holdings Limited ("Lifestyle") as detailed in the announcement of the Company dated 29th January, 2008 (the "Announcement").

As set out in the Announcement, after extensive negotiations with Lifestyle and financial creditors of the Group, a majority of the financial creditors in number and debt amount indicated their acceptance (subject to legally binding documentation) of the principal terms of the Lifestyle Proposal which involved, among other things, injection by Lifestyle of new funds into the Company in the amount of approximately HK\$1.2 billion and reduction of the level of the Group's indebtedness owed to financial creditors. In addition, a bridging loan of HK\$300 million provided by Lifestyle had been extended to 22nd February, 2008 and subject to certain conditions, Lifestyle is prepared to further extend the maturity date of the bridging loan. Provided the Lifestyle Proposal can be completed with injection of new funds into the Company and the reduction of the Group's indebtedness owed to financial creditors, the Directors consider that the Group will be able to meet its financial obligations as they fall due and to finance its future working capital and financial requirements. On this basis, the Directors consider that it is reasonable that the accounts for the six months ended 30th November, 2007 are prepared on a going concern basis, the validity of which is dependent on the successful outcome of the Lifestyle Proposal. Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities to current assets and current liabilities. The effect of these adjustments has not been reflected in the accounts.

The condensed consolidated accounts have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34 ("HKAS 34") "Interim Financial Reporting" issued by Hong Kong Institute of Certified Public Accountants ("HKICPA").

The condensed consolidated accounts have been prepared on the historical cost basis except for 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 condensed consolidated accounts are consistent with those followed in the preparation of the Group's annual accounts for the year ended 31st May, 2007.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning on 1st June, 2007.

The adoption of these new HKFRSs had no material effect on the results or financial position for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The Directors anticipate that the application of these standards and interpretations will have no material impact on the results and the financial position of the Group.

HKAS 23 (Revised)	Borrowing costs <sup>1</sup>
HKFRS 8	Operating segments <sup>1</sup>
HK(IFRIC) – INT 12	Service concession arrangements <sup>2</sup>
HK(IFRIC) – INT 13	Customer loyalty programmes <sup>3</sup>
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction <sup>2</sup>

*1 Effective for annual periods beginning on or after 1st January, 2009.*

*2 Effective for annual periods beginning on or after 1st January, 2008.*

*3 Effective for annual periods beginning on or after 1st July, 2008.*

## 2. 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 available-for-sale financial assets and investments held for trading. Available-for-sale financial assets include investments in listed/unlisted securities.





(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 merchandise. Segment assets and capital expenditure are based on the geographical locations of the assets.

	Six months ended 30th November, 2007			As at 30th November, 2007
	Turnover <i>HK\$'000</i>	Segment results	Capital expenditure	Total assets
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Europe	2,470,044	25,974	66,382	2,857,892
America	122,380	(67,632)	–	50,537
Asia Pacific	291,924	(1,079,550)	14,347	1,311,469
	<u>2,884,348</u>	<u>(1,121,208)</u>	<u>80,729</u>	<u>4,219,898</u>
Interests in associated companies				<u>123,992</u>
Total assets				<u>4,343,890</u>

	Six months ended 30th November, 2006			As at 31st May, 2007
	Turnover <i>HK\$'000</i>	Segment results	Capital expenditure	Total assets
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Europe	2,341,249	200,255	64,619	2,631,045
America	139,944	(8,931)	713	55,701
Asia Pacific	828,777	116,676	15,740	1,902,838
	<u>3,309,970</u>	<u>308,000</u>	<u>81,072</u>	<u>4,589,584</u>
Interests in associated companies				<u>200,131</u>
Total assets				<u>4,789,715</u>

3. **Impairment losses on assets**

	Six months ended	
	30th November, 2007	30th November, 2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Impairment losses on accounts receivable	44,320	3,137
Impairment losses on other receivables	966,747	–
	<u>1,011,067</u>	<u>3,137</u>

In light of the findings by KPMG, the Directors decided to make full allowance for certain accounts and other receivables totalling approximately HK\$1,001,556,000. The remaining amount of approximately HK\$9,511,000 related to allowances made for receivables arising from other transactions during the period.

4. The Company's accumulated losses as at 30th November, 2007 and the loss for the period then ended amounted to approximately HK\$2,726,134,000 and HK\$709,998,000 respectively.

5. **(Loss)/profit before taxation**

The Group's (loss)/profit before taxation is arrived at after crediting and charging the following:

	Six months ended	
	30th November, 2007 HK\$'000	30th November, 2006 HK\$'000
Crediting:		
Interest income	7,606	35,300
Net exchange gain	68,105	10,901
Net fair value gain on financial instruments		
– interest rate swaps	13,079	–
Net gain on derivative financial instruments		
– forward foreign exchange contracts	–	2,289
– forward gold/silver contracts	–	2,093
– gold/silver options	–	2,372
Gain on disposal of fixed assets	2,108	53
Gain on disposal of leasehold land	1,219	–
Gain on disposal of available-for-sale financial assets – unlisted securities	1,285	–
Charging:		
Depreciation of fixed assets	52,348	42,200
Amortisation of intangible assets	13,837	8,324
Amortisation of leasehold land	345	343
Net fair value loss on financial instruments		
– interest rate swaps	–	1,602
Net loss on derivative financial instruments		
– forward foreign exchange contracts	2,169	–
– forward gold/silver contracts	4,054	–
– silver options	75	–
– currency options	1,170	25,091
Loss on disposal of interests in associated companies	74,255	–
Loss on disposal of available-for-sale financial assets – listed securities	9,942	–
Interest expenses	123,077	75,388
Share of taxation of associated companies (Included in share of profit/(loss) of associated companies)	4,363	1,148

**6. Taxation**

Taxation comprised:

	<b>Six months ended</b>	
	<b>30th November, 2007</b>	<b>30th November, 2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
The Company and its subsidiaries		
Current taxation:		
Hong Kong profits tax		
– Provision for current period	8,576	5,735
Overseas taxation		
– Provision for current period	10,282	10,754
– Under-provision in prior periods	20	20,987
Deferred taxation		
– Recognised during the period	3,015	(11,882)
	<u>21,893</u>	<u>25,594</u>

Hong Kong profits tax was provided at the rate of 16.5% (2006: 17.5%) on the estimated assessable profit arising in or derived from Hong Kong. Taxation on overseas profits was calculated on the estimated assessable profits for the period provided by subsidiaries with overseas operations at the tax rates applicable in the countries in which the subsidiaries operated.

**7. Interim dividend**

The Board does not recommend the payment of an interim dividend for the period ended 30th November, 2007 (2006: HK3 cents per share).

**8. (Loss)/earnings per share***(a) Basic (loss)/earnings per share*

Basic (loss)/earnings per share was calculated based on the consolidated loss attributable to equity holders of the Company for the period of approximately HK\$1,263,503,000 (2006: profit of HK\$186,023,000) and the weighted average number of ordinary shares of approximately 1,464,001,000 (2006: 1,310,387,000) in issue during the period.

*(b) Diluted (loss)/earnings per share*

No diluted loss per share is presented for the six months ended 30th November, 2007 as the exercise of the Company's outstanding share options for the period would result in a decrease in loss per share.

*(c) Reconciliation*

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

	<b>Six months ended</b>	
	<b>30th November, 2007</b>	<b>30th November, 2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss)/profit attributable to equity holders of the Company used in calculating basic and diluted (loss)/earnings per share	<u>(1,263,503)</u>	<u>186,023</u>

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

	Six months ended	
	30th November, 2007	30th November, 2006
Weighted average number of ordinary shares used in calculating basic (loss)/earnings per share	1,464,001,000	1,310,387,000
Dilutive potential effect in respect of – Share options of the Company	N/A	14,097,000
	<hr/>	<hr/>
Weighted average number of ordinary shares used in calculating diluted (loss)/earnings per share	N/A	1,324,484,000
	<hr/> <hr/>	<hr/> <hr/>
<b>9. Fixed assets</b>		<b>Property, plant and equipment</b>
		<i>HK\$'000</i>
Carrying value as at 1st June, 2007		467,305
Additions		78,703
Exchange adjustments and disposals		33,595
Charge for the period		(52,348)
		<hr/>
Carrying value as at 30th November, 2007		527,255
		<hr/> <hr/>
<b>10. Leasehold land</b>		<i>HK\$'000</i>
Carrying value as at 1st June, 2007		20,214
Disposals		(1,141)
Charge for the period		(345)
		<hr/>
Carrying value as at 30th November, 2007		18,728
		<hr/> <hr/>
<b>11. Intangible assets</b>		<i>HK\$'000</i>
Carrying value as at 1st June, 2007		651,526
Additions		2,026
Exchange adjustments and disposals		43,809
Charge for the period		(13,837)
		<hr/>
Carrying value as at 30th November, 2007		683,524
		<hr/> <hr/>
<b>12. Available-for-sale financial assets</b>		

As at 30th November, 2007, 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\$80,274,000 (2006: a surplus of HK\$54,311,000) was recorded in the revaluation reserve. In the opinion of the Directors, there was no indication of impairment in the carrying values of the financial assets.



## 13. Derivative financial instruments

	As at		As at	
	30th November, 2007		31st May, 2007	
	Assets	Liabilities	Assets	Liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Forward foreign exchange contracts	–	346	1,760	2,925
Currency options	–	1,747	–	78,431
Forward gold and silver contracts	–	–	–	1,712
Silver options	–	–	75	–
Interest rate swaps	–	84,201	5,429	128,278
	<u>–</u>	<u>86,294</u>	<u>7,264</u>	<u>211,346</u>
Analysed as:				
Non-current	–	–	3,980	129,398
Current	–	86,294	3,284	81,948
	<u>–</u>	<u>86,294</u>	<u>7,264</u>	<u>211,346</u>

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

## 14. Accounts receivable aging analysis

In general, the Group grants an average credit period of 30 to 120 days to its trade customers. Aging analysis of accounts receivable after impairment losses on accounts receivable was as follows:

	As at	As at
	30th November,	31st May,
	2007	2007
	HK\$'000	HK\$'000
Current and due within one month	314,004	546,495
Due between one to two months	38,362	89,158
Due between two to three months	12,163	17,828
Due between three to four months	11,328	14,983
Due over four months	37,706	41,082
	<u>413,563</u>	<u>709,546</u>

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

## 15. Accounts payable aging analysis

Aging analysis of accounts payable was as follows:

	As at 30th November, 2007 HK\$'000	As at 31st May, 2007 HK\$'000
Current and due within one month	182,577	589,860
Due between one to two months	36,423	30,577
Due between two to three months	2,779	2,072
Due between three to four months	1,056	791
Due over four months	15,378	34,716
	<u>238,213</u>	<u>658,016</u>

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

## 16. Bank borrowings

(a) Short-term bank borrowings comprised:

	As at 30th November, 2007 HK\$'000	As at 31st May, 2007 HK\$'000
Bank loans and overdrafts	1,383,059	944,287
Trust receipts and import loans	292,151	347,647
	<u>1,675,210</u>	<u>1,291,934</u>

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

(b) Long-term bank borrowings:

	As at 30th November, 2007 HK\$'000	As at 31st May, 2007 HK\$'000
Repayable		
– within one year		
Secured	16,655	7,798
Unsecured	1,963,948	375,614
– in the second year		
Secured	–	5,297
Unsecured	–	48,298
– in the third to fifth year		
Secured	–	6,114
Unsecured	–	778,525
– after the fifth year		
Secured	–	–
Unsecured	–	–
	<u>1,980,603</u>	<u>1,221,646</u>
Less: current portion included under current liabilities	<u>(1,980,603)</u>	<u>(383,412)</u>
	<u>–</u>	<u>838,234</u>

During the period, the Group breached certain of the terms of the syndicated loans, which are primarily related to the financial covenants of the Group. According to HKAS1 "Presentation of Financial Statements", since the banks have not agreed to waive their rights to demand immediate repayment as at the balance sheet date, the non-current portion of the bank loans have been classified as current liabilities in the condensed consolidated balance sheet as at 30 November 2007.

The fair value of the long-term bank borrowings, estimated by discounting their future cash flows at the prevailing market borrowing rates at the balance sheet date, approximates the corresponding carrying amount.

The carrying amount of the Group's total bank borrowings are denominated in the following currencies:

	<b>As at 30th November, 2007</b>	<b>As at 31st May, 2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong dollars	1,333,653	645,610
US dollars	439,455	416,862
Euro	1,792,981	1,373,150
Others	89,724	77,958
	<u>3,655,813</u>	<u>2,513,580</u>

**17. Share capital**

	<b>Number of shares</b>	<b>Nominal value of each share</b>	<b>Nominal value of shares</b>
		<i>HK\$</i>	<i>HK\$'000</i>
Balance as at 1st June, 2007	1,464,001,524	1.0	1,464,001
	<u>1,464,001,524</u>		<u>1,464,001</u>
Balance as at 30th November, 2007	1,464,001,524	1.0	1,464,001
	<u>1,464,001,524</u>		<u>1,464,001</u>

## 18. Reserves and minority interests

	Attributable to equity holders of the Company										
	Share premium account	Exchange translation reserve	Accumulated losses	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
Balance as at											
1st June, 2007	814,848	(213,487)	(1,386,646)	55,001	40,801	(454,108)	270	580	(1,142,741)	5,699	(1,137,042)
Share of exchange translation reserve of an associated company	-	151	-	-	-	-	-	-	151	-	151
Revaluation of listed available-for-sale financial assets	-	-	-	(80,274)	-	-	-	-	(80,274)	-	(80,274)
Disposal of listed available-for-sale financial assets	-	-	-	(2,141)	-	-	-	-	(2,141)	-	(2,141)
Loss for the period	-	-	(1,263,503)	-	-	-	-	-	(1,263,503)	(1,693)	(1,265,196)
Dividends paid to minority shareholders	-	-	-	-	-	-	-	-	-	(2)	(2)
Exchange differences arising from translation of overseas subsidiaries' and associated companies' financial statements	-	(14,114)	-	-	-	-	-	-	(14,114)	144	(13,970)
Balance as at 30th November, 2007	<u>814,848</u>	<u>(227,450)</u>	<u>(2,650,149)</u>	<u>(27,414)</u>	<u>40,801</u>	<u>(454,108)</u>	<u>270</u>	<u>580</u>	<u>(2,502,622)</u>	<u>4,148</u>	<u>(2,498,474)</u>

## 19. 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, 2007 <i>HK\$'000</i>	30th November, 2006 <i>HK\$'000</i>
Purchases from Amaretta	–	38
Purchases from Kuraray group	8,476	14,537
Sales to Dominique	17,526	9,212
Sales to Amaretta	–	8
Sales to Tonic	–	49
Sales to JOOP!	1,895	–
Management fee from Amaretta	–	861
Royalties to JOOP!	8,679	7,421
Interest expense to Amaretta	–	47
Advertising contribution to JOOP!	2,456	–
Advertising contribution to Dominique	27	74
Rental income from Amaretta	–	840

*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 Listing Rules.
  - iv. Interest was charged at the commercial 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, 2007 <i>HK\$'000</i>	30th November, 2006 <i>HK\$'000</i>
Salaries and other short-term employee benefits	14,866	12,607
Termination benefits	–	1,620
Post-employment benefits	4,487	192
	<u>19,353</u>	<u>14,419</u>

## 20. Commitments

(a) *Commitments under operating leases*

The Group had future aggregated minimum lease payments under non-cancellable operating leases payable as follows:

	As at 30th November, 2007		As at 31st May, 2007	
	Leasehold land and buildings HK\$'000	Furniture and equipment HK\$'000	Leasehold land and buildings HK\$'000	Furniture and equipment HK\$'000
Payable:				
– Not later than one year	323,026	17,892	290,831	19,068
– Later than one year and not later than five years	862,023	20,255	745,236	19,348
– Later than five years	579,594	1,268	562,868	1,617
	<u>1,764,643</u>	<u>39,415</u>	<u>1,598,935</u>	<u>40,033</u>

(b) *Commitments under license agreements*

The Group had future aggregated minimum royalty payments under license agreements payable as follows:

	As at 30th November, 2007 HK\$'000	As at 31st May, 2007 HK\$'000
Payable:		
– Not later than one year	42,111	51,319
– Later than one year and not later than five years	86,030	92,861
	<u>128,141</u>	<u>144,180</u>

(c) *Purchase commitments*

Certain subsidiaries of the Group entered into purchase agreements with third party companies and agreed to purchase leather products from these third party companies during the year up to 2008. As at 30th November, 2007, total outstanding commitment amounted to approximately HK\$581,331,000 (As at 31st May, 2007: HK\$515,878,000).

Save as disclosed above, neither the Group nor the Company had any significant commitments as at 30th November, 2007 and 31st May, 2007.

**21. Contingent liabilities**

As at 30th November, 2007, contingent liabilities not provided for by the Group were summarised below:

	As at 30th November, 2007 <i>HK\$'000</i>	As at 31st May, 2007 <i>HK\$'000</i>
Guarantee given to a financial institution in respect of facilities granted to an associated company	–	10,560
Guarantees given to landlords in respect of rental obligations of subsidiaries	16,863	15,325
Guarantees given to customs in respect of default in customs obligations of subsidiaries	<u>573</u>	<u>618</u>

In addition, the Company guaranteed the payments and performance by several subsidiaries under certain license agreements pursuant to which the subsidiaries were licensees.

**22. Pledge of assets**

Certain freehold land and buildings with an aggregate net book value of approximately HK\$39,896,000 as at 30th November, 2007 (as at 31st May, 2007: approximately HK\$37,439,000), certain leasehold rights with an aggregate net book value of approximately HK\$19,813,000 as at 30th November, 2007 (as at 31st May, 2007: approximately HK\$18,036,000) and inventories with approximate carrying amount of HK\$64,638,000 as at 30th November, 2007 (as at 31st May, 2007: approximately HK\$68,559,000) were pledged to secure for banking facilities granted to certain overseas subsidiaries of the Group.

Certain assets of the Group were pledged as security for a bridging loan provided by a wholly owned subsidiary of Lifestyle as part of the financial restructuring of the Group. As at 30th November, 2007, assets pledged include land and buildings and leasehold land with an aggregate net book value of approximately HK\$25,486,000, trademarks with a net book value of approximately HK\$78,107,000, cash and bank balances of approximately HK\$249,125,000, all the Group's equity interests in P.C. International Marketing Limited ("PCIM"), a wholly owned subsidiary of the Group holding and operating the "Pierre Cardin" brand for timepiece and jewellery products and a debenture over the assets of PCIM."

#### 4. STATEMENT OF INDEBTEDNESS

At the close of business on 30 April 2008, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this document, the Egana Group had outstanding bank borrowings of approximately HK\$3,703 million, obligations under finance leases of approximately HK\$45 million and other borrowings of approximately HK\$507 million. The bank borrowing of approximately HK\$56 million was secured by leasehold land use right, land and buildings and inventories of certain subsidiaries of the Egana Group.

Certain assets of the Egana Group were pledged as security for the Bridging Loan provided by a wholly-owned subsidiary of Lifestyle as part of the financial restructuring of the Egana Group. As at 30 April 2008, assets pledged included land and buildings, leasehold land, trademarks, cash and bank balances, all Egana Group's equity interests in P.C. International Marketing Limited ("PCIM"), a wholly-owned subsidiary of Egana holding and operating the "Pierre Cardin" brand for timepiece and jewellery products and a debenture over the assets of PCIM.

As at 30 April 2008, the Egana Group had executed guarantees of approximately HK\$148 million to third parties for rental commitments of certain subsidiaries.

As at the close of business on 30 April 2008, save as disclosed herein and apart from inter-group liabilities and normal trade and other payable in the ordinary course of the business of the Egana Group, the Egana 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 30 April 2008. The Egana Directors have confirmed that there has been no material change in the Egana Group's indebtedness and contingent liability position since 30 April 2008 and up to the Latest Practicable Date.

#### 5. WORKING CAPITAL

In arriving at the opinion as stated below, the Egana Directors have considered the projected cash flow of the Egana Group for the 12 months following completion of the Restructuring Proposal. The cash flow projection is based on a number of principal assumptions including (a) completion of the Restructuring Proposal; (b) the Egana Group continuing to maintain good relationship with brand owners and licensors enabling the Egana Group to manufacture and distribute products under their brands; (c) the Egana Group securing arrangements for financing the second instalment repayment of HK\$640 million under the Debt Restructuring Agreement falling due within 10 days of the first anniversary of the Effective Date; and (d) upon Completion, Lifestyle as the then substantial shareholder of Egana providing appropriate financial support to the Egana Group.

On the basis of the above assumptions, the Egana Directors are of the opinion that, in the absence of unforeseen circumstances and after taking into account the reduction of debt under the Debt Restructuring Agreement, the existing banking facilities and the share and convertible loan capital to be injected by Lifestyle, the Egana Group will have sufficient working capital to meet its present requirements.



## 6. MATERIAL CHANGES

The Egana Directors confirm that there are no material changes in the financial or trading position or outlook of the Egana Group since 31 May 2007 (being the date to which the latest audited accounts of the Egana Group were made up) up to and including the Latest Practicable Date, save for the below mentioned:

### (a) **HK\$1 billion loan agreement**

Egana entered into a loan agreement with a syndicate of banks on 15 June 2007 for a term loan facility of HK\$1 billion. Further details were set out in the announcement of Egana dated 15 June 2007;

### (b) **Acquisition of 30% of the issued share capital of Joint Asset by Peninsula International Limited**

Peninsula International Limited entered into a sale and purchase agreement with VDCI S.A. on 11 July 2007, pursuant to which Peninsula International Limited agreed to acquire from VDCI S.A. the 30% of the issued share capital of Joint Asset. Further details were set out in the announcement of Egana dated 11 July 2007;

### (c) **Financial difficulties of the Egana Group and the Restructuring Proposal**

Egana appointed KPMG, an independent professional firm, to conduct an independent review of its financial position based on an agreed scope of work which included a review of the Egana Group's receivables. KPMG completed its review on 16 October 2007 and expressed serious reservations on the recoverability of certain receivables and promissory notes totaling approximately HK\$2.6 billion, comprising approximately HK\$1.6 billion as at 31 May 2007 and approximately HK\$1.0 billion arising subsequent to that date. As a result of the KPMG review, full provisions for the doubtful receivables and promissory notes of approximately HK\$1.6 billion and HK\$1.0 billion having charged to the profit and loss account during the financial year ended 31 May 2007 and the six months ended 30 November 2007 respectively. KPMG also considered that it was doubtful whether certain trading operations from which a substantial proportion of the Egana Group's reported profit had previously been derived would continue to generate such profits in the future. These trading operations had been discontinued. The Egana Group suffered financial difficulties with certain of its bank creditors taking legal actions for the repayment of outstanding debts and certain of its credit insurers and debt factoring banks withdrawing the facilities they previously providing to the Egana Group. Due to the financial difficulties and deterioration of financial position of the Egana Group, the contingent liabilities of the Egana Group comprising mainly guarantees given to landlords in respect of rental obligations became approximately HK\$148.1 million as at 30 April 2008 as shown in the section headed "Statement of indebtedness" above in this appendix. The financial difficulties of the Egana Group had material adverse effect on the price of Egana Shares and trading in Egana Shares was suspended from 12 September 2007 until further notice. Negotiations were entered into between Egana and its bank creditors and potential investors to remedy the Egana Group's financial difficulties. The restructuring proposal submitted by Lifestyle was accepted by

parties. Lifestyle agreed to provide the HK\$300 million secured Bridging Loan to the Egana Group by entering into a credit agreement on 23 September 2007. In view of the additional liquidity provided by Lifestyle and the restructuring proposal made by Lifestyle, the legal actions against the Egana Group for repayment of outstanding debts were withdrawn and the main factoring bank of the Egana Group restored the factoring facilities as disclosed in the announcement of Egana dated 2 October 2007. Bank and other creditors of the Egana Group had subsequently exercised forbearance pending the implementation of the restructuring proposal. The Bridging Loan was renewed for several times with repayment no later than 12:00 noon (Hong Kong time) on 30 June 2008 (unless a later date is approved by the lender in writing). Lifestyle is prepared to further extend the maturity date of the Bridging Loan beyond 12:00 noon (Hong Kong time) on 30 June 2008, but only after taking into account all material considerations at that time including whether any material adverse changes have occurred and the progress of the Restructuring Proposal.

After extensive negotiations among parties, the Debt Restructuring Agreement was entered into by parties as detailed in the Announcement and this circular. The Egana Group had unaudited consolidated net current liabilities and net deficits attributable to the Egana Shareholders of approximately HK\$2,192.9 million and HK\$1,038.6 million respectively as at 30 November 2007. It is stated in the section headed “Reasons for the Restructuring Proposal” as set out in the letter from the Egana Board contained in this circular that the financial position of the Egana Group is expected to be improved by having net current assets and net assets attributable to the Egana Shareholders following Completion as shown in the unaudited pro forma financial information on the Egana Group contained in appendix II to this circular. Further details of financial difficulties of the Egana Group, the Restructuring Proposal and the Bridging Loan were set out in the announcements of Egana dated 7 August 2007, 31 August 2007, 2 October 2007, 29 November 2007, 29 January 2008, 25 February 2008, 25 March 2008, 31 March 2008, 21 April 2008, 7 May 2008, 2 June 2008, 13 June 2008 and 16 June 2008;

**(d) Changes of Egana Directors, company secretary, qualified accountant and auditors**

Mr. Hans-Joerg SEEBERGER died by natural causes in Spain on 19 October 2007. Mr. Andy Yick Man NG (“Mr. Ng”), Mr. David Wai Kwong WONG and Mr. Ho Yin CHIK resigned as directors with effect from 31 July 2007, 13 August 2007 and 16 November 2007 respectively. Mr. Wong also resigned as the company secretary and the qualified accountant of Egana with effect from 13 August 2007. Mr. Juergen Ludwig HOLZSCHUH has been appointed as a director of Egana with effect from 13 August 2007. Baker Tilly Hong Kong Limited tendered its resignation as auditors of Egana and certain of its subsidiaries comprising the Egana Group on 22 May 2008. Appointments of new independent non-executive director (in place of Mr. Ng’s position), company secretary, qualified accountant and auditors have not yet been made. Further details were set out in the announcements of Egana dated 1 August 2007, 13 August 2007, 22 October 2007, 16 November 2007 and 23 May 2008;

**(e)** The Capital Reduction as approved by Egana Shareholders on 28 March 2008. Further details were set out in the announcements of Egana dated 29 February 2008 and 28 March 2008 and the circular of Egana dated 3 March 2008;

**(f) Visit by the Commercial Crime Bureau of the Hong Kong Police Force (the “CCB”)**

On 12 June 2008, the CCB visited Egana’s premises for the purpose of inspecting documents and interviewing personnel. Egana understands that this is part of a continuing investigation into historical irregularities in the Egana Group’s trading operations previously highlighted by the KPMG report, and referred to in announcements by Egana dated 31 August 2007 and 2 October 2007. Such trading operations have been entirely discontinued since August 2007. Egana understands that an existing director and an employee in the accounts department were arrested by the CCB. Further details were set out in the announcements of Egana dated 13 June 2008 and 16 June 2008;

**(g)** Information contained in the published unaudited interim financial report of Egana for the six months ended 30 November 2007 relating to the financial condition of the Egana Group with loss for the period of approximately HK\$1.27 billion, net current liabilities and shareholders’ deficits; and

**(h) Outlook of, and future intentions of Lifestyle regarding, the Egana Group**

As disclosed in the published unaudited interim report of the Egana for the six months ended 30 November 2007, in the six months ended 31 May 2008, sales over the holiday period and in January 2008 had been somewhat weaker than for the corresponding period in the previous financial year. The sales for the period from February 2008 to May 2008 remained weaker than the corresponding period in the previous financial year. The sales for the six months ended 31 May 2008 were weaker than that for the six months ended 30 November 2007. This was in line with the general economic conditions. It was disclosed in the published unaudited interim report of the Egana for the six months ended 30 November 2007 that the Egana Board intended to devote more resources in the future to Eastern Europe, Middle East and Asia and, in particular, the PRC market following completion of the Restructuring Proposal.

It is stated in the section headed “Future intentions of Lifestyle regarding the Egana Group” as set out in the letter from the Egana Board contained in this circular that Lifestyle will conduct a more detailed review of the financial position and the operations of the Egana Group with a view to finalising a corporate strategy upon Completion. Although Lifestyle does not have any immediate plan for redeployment of the material fixed assets of Egana, Lifestyle is considering restructuring Egana’s existing business. Accordingly, there may be material changes in the financial or trading position or outlook of the Egana Group after Completion. A summary of the future intentions of Lifestyle regarding the Egana Group are set out in the section headed “Future intentions of Lifestyle regarding the Egana Group” as set out in the letter from the Egana Board contained in this circular.

<b>APPENDIX II</b>	<b>UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE EGANA GROUP</b>
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*The following is the unaudited pro forma consolidated balance sheet of the Egana Group prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules for the purpose of illustrating the effect of the Restructuring Proposal on the financial position of the Egana Group as if it had taken place on 30 November 2007.*

*The unaudited pro forma consolidated balance sheet of the Egana Group has been prepared based on the unaudited consolidated balance sheet of the Egana Group as at 30 November 2007 extracted from the published interim financial report of the Egana Group as at 30 November 2007 as set out in appendix I to this circular and adjusted to reflect the effect of the Restructuring Proposal as if the Restructuring Proposal had been completed on 30 November 2007. As it is prepared for illustrative purpose only, and because of its nature, it may not give a true picture of the financial position of the Egana Group following the completion of the Restructuring Proposal as at 30 November 2007 or any future date.*

	As at 30 November 2007	Pro forma adjustments			Pro forma upon completion of the Restructuring Proposal
	Note 1	Note 2	Note 3	Note 4	Note 5
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Non-current assets</b>					
Fixed assets	527,255				527,255
Leasehold land	18,728				18,728
Intangible assets	683,524				683,524
Deferred tax assets	54,947				54,947
Interests in associated companies	123,992				123,992
Available-for-sale financial assets	47,559				47,559
	1,456,005				1,456,005
<b>Current assets</b>					
Inventories	1,502,763				1,502,763
Accounts receivable, net	413,563				413,563
Deposits, prepayments and other receivables	387,360				387,360
Due from associated companies	26,439				26,439
Investments held for trading	135				135
Cash and cash equivalents	557,625		906,000	(640,000)	823,625
	2,887,885				3,153,885

**APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
ON THE EGANA GROUP**

	As at 30 November 2007					Pro forma adjustments	Restructuring Proposal
	Note 1	Note 2	Note 3	Note 4	Note 5		
	HK\$' 000	HK\$' 000	HK\$' 000	HK\$' 000	HK\$' 000	HK\$' 000	HK\$' 000
<b>Current liabilities</b>							
Accounts payable	(238,213)						(238,213)
Accruals and other payables	(548,547)			36,759			(511,788)
Provisions	(104,501)						(104,501)
Derivative financial instruments	(86,294)						(86,294)
Short-term bank borrowings	(1,675,210)			1,675,210			-
Short-term other loans	(379,407)		300,000	79,407			-
Current portion of long-term bank borrowings	(1,980,603)			1,980,603			-
Current portion of other long-term liabilities	(3,290)						(3,290)
Current portion of obligations under finance leases	(17,263)						(17,263)
Current portion of pensions and other post retirement obligations	(11,324)						(11,324)
Due to associated companies	(103)						(103)
Loan from a minority shareholder	(1,584)						(1,584)
Taxation payable	(34,419)						(34,419)
	<u>(5,080,758)</u>						<u>(1,008,779)</u>
<b>Net current (liabilities)/assets</b>	<u>(2,192,873)</u>						<u>2,145,106</u>
<b>Total assets less current liabilities</b>	<u>(736,868)</u>						<u>3,601,111</u>
<b>Non-current liabilities</b>							
Other long-term liabilities	(34,184)						(34,184)
Restructured loans due after one year	-			(1,360,000)	80,000		(1,280,000)
Pensions and other post retirement obligations	(254,693)						(254,693)
Deferred tax liabilities	(8,728)		(24,688)		(1,997)		(35,413)
Convertible bonds	-		(847,795)		(68,587)		(916,382)
	<u>(297,605)</u>						<u>(2,520,672)</u>
<b>Net (liabilities)/assets</b>	<u><u>(1,034,473)</u></u>						<u><u>1,080,439</u></u>
<b>Capital and reserves</b>							
Share capital	1,464,001	(1,449,362)	43,426				58,065
Reserves	(2,502,622)	1,449,362	290,091	1,771,979	9,416		1,018,226
<b>Equity attributable to equity holders of Egana</b>	<u>(1,038,621)</u>						<u>1,076,291</u>
<b>Minority interests</b>	<u>4,148</u>						<u>4,148</u>
<b>Total Equity</b>	<u><u>(1,034,473)</u></u>						<u><u>1,080,439</u></u>

<b>APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE EGANA GROUP</b>
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*Notes:*

1. It is extracted from the unaudited consolidated balance sheet of the Egana Group as at 30 November 2007.
2. The adjustment is to reflect the effect of the Capital Reduction by applying accumulated losses of Egana to offset an amount of approximately HK\$1,449,362,000 of Egana's existing share capital.
3. The adjustment is to reflect:
  - (a) proceeds from issuance of 4,342,642,652 Egana Shares of HK\$0.01 each at subscription price of HK\$0.05 each which amounts to approximately HK\$217,132,000. The share capital and reserves are therefore increased by approximately HK\$43,426,000 and approximately HK\$173,706,000 respectively;
  - (b) issuance of the Lifestyle Convertible Bonds of HK\$988,867,867 pursuant to the Debt Restructuring Agreement, which results in the separation of the Lifestyle Convertible Bonds into equity component of approximately HK\$141,073,000 and liability component of approximately HK\$847,795,000 in accordance with Hong Kong Accounting Standard 32 based on the assumptions that (i) imputed interest rate on the liability component of the Lifestyle Convertible Bonds is 8% per annum; and (ii) the deferred tax liabilities of approximately HK\$24,688,000 on the equity component, which is to be deducted from the equity component of approximately HK\$141,073,000, are calculated based on the tax rate of 17.5%; and
  - (c) settlement of the Bridging Loan of HK\$300,000,000 (by way of deduction of the proceeds from the issuance of the Egana Shares and the Lifestyle Convertible Notes as mentioned in Notes 3(a) and 3(b) above) pursuant to the Debt Restructuring Agreement.
4. The adjustment is to reflect (i) the reduction in aggregate amount of loans due to banks and other creditors (comprising the Participating Creditors and the Fully Secured Creditors) from approximately HK\$3,735,220,000 carried in the Egana Group's consolidated balance sheet as at 30 November 2007 to HK\$2,000,000,000 pursuant to the Debt Restructuring Agreement; and (ii) write back of the related accrued interest expense of HK\$36,759,000 as at 30 November 2007 waived by the Participating Creditors pursuant to the Debt Restructuring Agreement. It is assumed that no tax consequences arising from the waiver of debts and write back of the accrued interest expense.

Pursuant to the Debt Restructuring Agreement, the amount of HK\$2,000,000,000 will be settled in the following manner:

- (i) repayment of HK\$1,920,000,000 in three equal instalments of HK\$640,000,000 each, with the first instalment to be paid to the paying agent for the Participating Creditors within 10 days of the Effective Date of the Debt Restructuring Agreement for distribution to the Fully Secured Creditors and the Participating Creditors on the date falling 14 days after the Effective Date of the Debt Restructuring Agreement, and the second and third instalments to be paid to the paying agent within 10 days of the first and second anniversary of the Effective Date of the Debt Restructuring Agreement respectively for distribution to the Participating Creditors. Accordingly, the first instalment of HK\$640,000,000 is assumed to have been paid to the Participating Creditors and the Fully Secured Creditors to the extent of HK\$535,300,000 and HK\$104,700,000 respectively, and the second and final instalments totalling HK\$1,280,000,000 are classified as "restructured loans due after one year" under non-current liabilities in the Egana Group's unaudited pro forma consolidated balance sheet; and
  - (ii) the issuance of the Participating Creditors' Convertible Bonds of HK\$80,000,000 by a wholly-owned subsidiary of Egana, adjustment of which is detailed in Note 5 below.
5. The adjustment is to reflect the effect of issuance of the Participating Creditors' Convertible Bonds of HK\$80,000,000 pursuant to the Debt Restructuring Agreement, which results in the separation of the Participating Creditors' Convertible Bonds into equity component of approximately HK\$11,413,000 and liability component of approximately HK\$68,587,000 in accordance with Hong Kong Accounting Standard 32 based on the assumptions that (i) imputed interest rate on the liability component of the Participating Creditors' Convertible Bonds is 8% per annum; and (ii) the deferred tax liabilities of approximately HK\$1,997,000 on the equity component, which is to be deducted from the equity component of approximately HK\$11,413,000, are calculated based on the tax rate of 17.5%.
  6. The amounts of loans and interests to be reduced as mentioned in Note 3 and Note 4 above are based on their relevant amounts recognised in the unaudited consolidated balance sheet of the Egana Group as at 30 November 2007. The amounts as at 30 November 2007 are expected to be different from the amounts as at the Effective Date of the Debt Restructuring Agreement.
  7. The expenses attributable to the Restructuring Proposal have not been accounted for in the preparation of the unaudited pro forma financial information as such costs cannot be determined accurately at this stage.

**APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
ON THE EGANA GROUP**

*The following is the full text of a letter received from BDO for the purpose of incorporation in this circular.*



**BDO McCabe Lo Limited**  
Certified Public Accountants  
25th Floor, Wing On Centre  
111 Connaught Road Central  
Hong Kong  
Telephone: (852) 2541 5041  
Telefax: (852) 2815 0002

德豪嘉信會計師事務所有限公司  
香港干諾道中一百一十一號  
永安中心二十五樓  
電話:(八五二)二五四一 五〇四一  
傳真:(八五二)二八一五 〇〇〇二

The Directors  
EganaGoldpfeil (Holdings) Limited  
Block C, 11th Floor  
Hong Kong Industrial Centre  
489-491 Castle Peak Road  
Cheung Sha Wan, Kowloon  
Hong Kong

Dear Sirs,

**ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION  
TO THE DIRECTORS OF EGANAGOLDPFEIL (HOLDINGS) LIMITED**

We report on the unaudited pro forma financial information of EganaGoldpfeil (Holdings) Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), which has been prepared by the directors of the Company for illustrative purpose only, to provide information about how the proposed capital reduction, debt restructuring, issue of new shares and convertible bonds might have affected the financial information presented, for inclusion in Appendix II to the circular dated 30 June 2008 (the “Circular”) issued by the Company. The basis of preparation of the unaudited pro forma financial information is set out in Appendix II to the Circular.

**Respective responsibilities of the directors and reporting accountants**

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information, if any, used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

<b>APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE EGANA GROUP</b>
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**Basis of opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 November 2007 or any future date.

**Opinion**

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,

**BDO McCabe Lo Limited**  
*Certified Public Accountants*

**Wong Chi Wai**  
Practising Certificate Number P04945

Hong Kong, 30 June 2008



*The following is the text of a letter with the summary of values and valuation certificates received from CB Richard Ellis Limited, prepared for the purpose of incorporation in the circular, in connection with their valuation as at 31 March 2008 of all the property interests of the Egana Group.*

**CBRE**  
CB RICHARD ELLIS  
世邦魏理仕

34/F Central Plaza  
18 Harbour Road  
Wanchai, Hong Kong  
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地產代理（公司）牌照號碼  
Estate Agent's Licence No: C-004065

30 June 2008

**The Board of Directors**

**EganaGoldpfeil (Holdings) Limited**

Block C, 11th Floor, Hong Kong Industrial Centre,  
489-491 Castle Peak Road,  
Cheung Sha Wan,  
Kowloon,  
Hong Kong

Dear Sirs,

In accordance with the instructions from EganaGoldpfeil (Holdings) Limited (“Egana”) for us to value the property interests held by Egana and its subsidiaries (hereinafter together known as the “Egana Group”) in Hong Kong, Germany, Thailand, France, Netherlands, Poland, India, Russia, Austria, Czech Republic, Slowakei, Belgium, Italy, Switzerland, Japan, the United States of America (the “USA”), the Republic of Hungary, Portugal and the People’s Republic of China (the “PRC”). We confirm that we have carried out an inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of such property interests as at 31 March 2008 (the “date of valuation”).

Our valuation is our opinion of Market Value which is defined to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

Unless otherwise stated, our valuation is prepared in accordance with the “First Edition of The HKIS Valuation Standards on Properties” published by The Hong Kong Institute of Surveyors (“HKIS”) and the RICS Appraisal and Valuation Standards (5th Edition) published by The Royal Institution of Chartered Surveyors and effective from May 2003. We have also complied with all requirements contained in Paragraph 34(2), (3) of Schedule 3 of the Companies Ordinance (Cap. 32) and Chapter 5, Practice Note 12 and Practice Note 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

Our valuation has been made on the assumption that the owner sells the properties on the open market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which would serve to affect the values of the property interests.

The property interests in Hong Kong held by the Egana Group are valued by the comparison method on the assumption that each property can be sold with the benefit of vacant possession. Comparison is based on prices realized on actual transactions or asking price of comparable properties. Comparable properties with similar sizes, characters and locations are analyzed, and carefully weighted against all respective advantages and disadvantages of each property in order to arrive at a fair comparison of value.

The property interests in Group II to VI held by the Egana Group, we have relied on the valuation reports undertaken by Gerhard Schlier regarding the properties located in Germany, János Hidasi, Ábel Tökés and Ákos Balla regarding the properties located in the Republic of Hungary, Philippe Rebotton regarding the properties located in France, Manuel Jorge Teixeira da Mota regarding the properties located in Portugal and Nivat Suknivatsiri and Chawalit Monchasing regarding the properties located in Thailand.

For the property interests in Group VII, which are rented by the Egana Group, are considered to have no commercial value due mainly to the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

In the course of our valuation for the property interests in Thailand, we have taken reference to the legal opinions provided by the Egana Group’s Thailand legal advisor, Siam Firm Inter Laws Limited (the “Thailand Legal Opinion”). We have been provided with extracts from title documents relating to such property interests. We have not, however, searched the original documents to verify ownership or existence of any amendment which does not appear on the copies handed to us. All documents have been used for reference only.

We have relied to a considerable extent on information given by the Egana Group, in particular, but not limited to, the sales records, planning approvals, statutory notices, easements, tenancies and floor areas (including Gross Floor Areas, Saleable Gross Floor Areas and Non-saleable Gross Floor Areas). No on-site measurement has been taken. Dimensions, measurements and areas included in the valuation certificates are only approximations. We have taken every reasonable care both during inspecting the information provided to us and in making relevant enquiries. We have no reason to doubt the truth and accuracy of the information provided to us by the Egana Group, which is material to the valuation. We were also advised by the Egana Group that no material facts have been omitted from the information provided to us.

We have inspected the properties to such extent as for the purpose of this valuation. In the course of our inspection, we did not notice any serious defects. However, we have not carried out any structural survey nor any tests were made on the building services. Therefore, we are not able to report whether the properties are free of rot, infestation or any other structural defects. We have not carried out investigations on the site to determine the suitability of the ground conditions and the services etc. for any future development.

In the course of our valuations of the property interests, we have not taken tax liabilities into account. As advised by the Company, types of potential tax liability would include, but not limited to, trade tax, stamp duty and income tax (note i). We have been further advised that the Company does not have the intention to sell the properties. Hence, the amount of tax liability would not be quantifiable nor crystallised.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoing of an onerous nature which could affect their values.

Unless otherwise stated, all monetary amounts are stated in this report are in Hong Kong Dollars. The exchange rates adopted in our valuations are approximately €1 = HK\$12.2879 and THB1= HK\$0.2479.

We enclose herewith a summary of valuation and our valuation certificates.

Yours faithfully,  
For and on behalf of  
**CB Richard Ellis Limited**  
**Kam-hung Yu**  
*Senior Managing Director*  
Valuation & Advisory Services

*Note:* Mr. Yu is the President of the Hong Kong Institute of Surveyors. He is a Registered Professional Surveyor (General Practice), a fellow of Royal Institution of Chartered Surveyors, a fellow of the Hong Kong Institute of Surveyors and a fellow of the Hong Kong Institute of Real Estate Administration. He has over 26 years' valuation experience in Hong Kong, the PRC and Asia-Pacific region.

*Note(i):* Advised by the Egana, for the indicative purpose, the potential tax liability would include: Germany (trade tax: 15%, income tax: 15%), Hungary (trade tax: 2%, income tax: 15%), Hong Kong (stamp duty: 3.75%), Thailand (business tax: 0.1%, Transfer fees and mortgage fee: 0.01%), Portugal (income tax: 25% – 26.5%) France (income tax: 34.4%).

## SUMMARY OF VALUES

No.	Property	Capital value in existing state as at 31 March 2008 <i>HK\$</i>	Interests attributable to the Egana Group	Capital value attributable to the Egana Group as at 31 March 2008 <i>HK\$</i>
<b>Group I – Property interests held by the Egana Group in Hong Kong</b>				
1.	Workshop Nos. C3, C7, C9, C10, C11, C12, C13 & C14 on 11th Floor and C3, C5, C6, C7 & C8 on 12th Floor of Hong Kong Industrial Centre, Nos. 489 – 491 Castle Peak Road, Kowloon, Hong Kong	44,000,000	100%	44,000,000
2.	Car parking space Nos. 106-107, 108-109, 110-111 on B/F of Hong Kong Industrial Centre, Nos. 489 – 491 Castle Peak Road, Kowloon, Hong Kong	4,500,000	100%	4,500,000
3.	Car parking space No. P28, Basement of Tower 1, Harbour Centre, 1 Hok Cheung Street, Hung Hom, Kowloon, Hong Kong	500,000	100%	500,000
<b>Group I Sub-total:</b>				<b>49,000,000</b>

No.	Property	Capital value in existing state as at 31 March 2008 <i>HK\$</i>	Interests attributable to the Egana Group	Capital value attributable to the Egana Group as at 31 March 2008 <i>HK\$</i>
<b>Group II – Property interests held by the Egana Group in Germany</b>				
4.	Neue Strasse 1, 99846 Seebach, Germany	8,600,000	100%	8,600,000
5.	Industriestrasse 7 – 9, 35614 Asslar, Germany	25,800,000	100%	25,800,000
6.	Saarstrasse 9, 55590 Meisenheim, Germany	8,600,000	100%	8,600,000
7.	Finkenweg 2 – 4, 74399 Walheim, Germany	34,400,000	100%	34,400,000
<b>Group II Sub-total:</b>				<b>77,400,000</b>

No.	Property	Capital value in existing state as at 31 March 2008 <i>HK\$</i>	Interests attributable to the Egana Group	Capital value attributable to the Egana Group as at 31 March 2008 <i>HK\$</i>
<b>Group III – Property interests held by the Egana Group in the Republic of Hungary</b>				
8.	Andrássy út 37, District VI, Budapest, the Republic of Hungary	19,270,000	99.849%	19,240,902
9.	Károly körút 25, District VII, Budapest, the Republic of Hungary	5,060,000	99.849%	5,052,359
10.	Erzsébet körút 2, District VII, Budapest, the Republic of Hungary	3,100,000	99.849%	3,095,319
11.	Erzsébet körút 18, District VII, Budapest, the Republic of Hungary	7,290,000	99.849%	7,278,992
12.	Erzsébet körút 36, District VII, Budapest, the Republic of Hungary	12,220,000	99.849%	12,201,548
13.	Baross tér 16-17, District VII, Budapest, the Republic of Hungary	15,100,000	99.849%	15,077,199
14.	Alkotás út. 1/a, District XII, Budapest, the Republic of Hungary	5,060,000	99.849%	5,052,359
15.	Csopak, Rozmaring utca 4., Veszprém County, the Republic of Hungary	940,000	99.849%	938,581
<b>Group III Sub-total:</b>				<b>67,937,259</b>

No.	Property	Capital value in existing state as at 31 March 2008 <i>HK\$</i>	Interests attributable to the Egana Group	Capital value attributable to the Egana Group as at 31 March 2008 <i>HK\$</i>
<b>Group IV – Property interests held by the Egana Group in France</b>				
16.	1 bis rue du Docteur Bally, 2 rue de Miribel, 38000 Grenoble, France	12,700,000	100%	12,700,000
<b>Group IV Sub-total:</b>				<b>12,700,000</b>
<b>Group V – Property interests held by the Egana Group in Portugal</b>				
17.	1791 Lousada, 13 Porto, 05 Lousada, 03 Boim, Town of S. Jorge, 4620 – 31 Boim Lousada, Portugal	32,400,000	100%	32,400,000
<b>Group V Sub-total:</b>				<b>32,400,000</b>
<b>Group VI – Property interests held by the Egana Group in Thailand</b>				
18.	4/4-7, Kor Tarpra Subdidtrict, Bangkok Yai District, Bangkok, Thailand	5,500,000	100%	5,500,000
<b>Group VI Sub-total:</b>				<b>5,500,000</b>

No.	Property	Capital value attributable to the Egana Group as at 31 March 2008
<b>Group VII – Property interests rented by the Egana Group</b>		
19.	5 properties rented by Time Success Industrial Limited in Shenzhen City, the PRC	No commercial value
20.	9 properties rented by Everstone Limited in Shenzhen City, the PRC	No commercial value
21.	A property rented by Bartelli Leather Products Limited in Shenzhen City, the PRC	No commercial value
22.	A property rented by Bartelli Leather Products (Shenzhen) Co. Limited in Shenzhen City, the PRC	No commercial value
23.	3 properties rented by Goldpfeil Distribution and Services Limited in Hong Kong	No commercial value
24.	A property rented by Egana of Switzerland (Far East) Limited in Hong Kong	No commercial value
25.	5 properties rented by Egana-Haru Mfr. Corp. Limited in Hong Kong	No commercial value
26.	13 properties rented by Eco-Haru Property Investments Limited in Hong Kong	No commercial value
27.	4 properties rented by EganaGoldpfeil (Japan) Limited in Japan	No commercial value
28.	A property rented by Keimothai Limited in Thailand	No commercial value
29.	A property rented by EganaGoldpfeil USA, Inc. in USA	No commercial value
30.	8 properties rented by Egana India Private Limited in India	No commercial value
31.	3 properties rented by EganaGoldpfeil (Switzerland) Limited in Switzerland	No commercial value
32.	4 properties rented by EganaGoldpfeil Austria GmbH in Austria	No commercial value



No.	Property	Capital value attributable to the Egana Group as at 31 March 2008
33.	A property rented by EganaGoldpfeil Italia s.r.l. in Italy	No commercial value
34.	3 properties rented by Lorica Sud s.r.l. in Italy.	No commercial value
35.	A property rented by EganaGoldpfeil Benelux B.V. in the Netherlands	No commercial value
36.	A property rented by DK Digital GmbH in Germany	No commercial value
37.	2 properties rented by Junghans Uhren GmbH in Germany	No commercial value
38.	2 properties rented by Porzellan-Manufaktur Ludwigsburg GmbH in Germany	No commercial value
39.	A property rented by EganaGoldpfeil Europe (Holdings) GmbH in Germany	No commercial value
40.	A property rented by EganaGoldpfeil Deutschland GmbH in Germany	No commercial value
41.	4 properties rented by EganaGoldpfeil Accessoires GmbH in Germany	No commercial value
42.	9 properties rented by Sioux GmbH in Germany	No commercial value
43.	A property rented by Guthmann + Wittenauer Schmuck GmbH in Germany	No commercial value
44.	38 properties rented by Salamander France S.A.S. in France and Belgium	No commercial value
45.	39 properties rented by Salamander in Austria GmbH in Austria.	No commercial value
46.	12 properties rented by Salamander CR spol s.r.o. in Czech Republic	No commercial value
47.	2 properties rented by Salamander CR spol s.r.o. in Slowakei	No commercial value
48.	25 properties rented by Salamander in Russland GmbH in Russia	No commercial value

<b>No.</b>	<b>Property</b>	<b>Capital value attributable to the Egana Group as at 31 March 2008</b>
49.	21 properties rented by Salamander Hungaria Kft. in Hungary	No commercial value
50.	12 properties rented by Salamander Polska Sp.z.o.o. in Poland	No commercial value
51.	55 properties rented by Salamander GmbH in Germany and the Netherlands	No commercial value
<b>Group VII Sub-total:</b>		<b>No commercial value</b>
<b>Grand total for capital value attributable to the Egana Group:</b>		<b>244,937,259</b>
<b>Grand total for capital value:</b>		<b>245,040,000</b>

## VALUATION CERTIFICATE

## Group I – Property interests held by the Egana Group in Hong Kong

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
1. Workshop Nos. C3, C7, C9, C10, C11, C12, C13 & C14 on 11th Floor and C3, C5, C6, C7 & C8 on 12th Floor of Hong Kong Industrial Centre, Nos. 489 – 491 Castle Peak Road, Kowloon, Hong Kong  123 of 7,700 share of and in the Sections C, D and F of New Kowloon Inland Lot No. 3515	The property comprises eight units on 11th Floor and five units on 12th Floor in a 12-storey building with a total gross floor area of approximately 22,800 sq.ft. (saleable gross floor area of approximately 18,300 sq.ft.).  The property was completed in 1982.  The Government Rent payable for the New Kowloon Inland Lot No. 3515 is HK\$810 per annum.	The property is occupied by the Group as office.	44,000,000 (100% interests attributable to the Egana Group: HK\$44,000,000)

*Notes:*

1. The registered owners of the property are Time Success Industrial Limited and Eco-Haru Property Investments Limited, which are the wholly-owned subsidiaries of Egana.
2. The property is held under the Condition of Sale No. 4268 for a term of 75 years from 1 July 1898 and renewable for further 24 years and extended until 30 June 2047 under the New Territories Leases (Extension) Ordinance (Cap. 150).
3. The property is subject to the following encumbrance:
  - a) The property is subject to a Mortgage in favour of Billion Empire Limited via a Memorial No. 07092802680026.
4. The property lies within an area zoned “Other Specified Uses” under the Cheung Sha Wan Outline Zoning Plan No. S/K5/30.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
2. Car parking space Nos. 106-107, 108-109, 110-111 on B/F of Hong Kong Industrial Centre, Nos. 489 – 491 Castle Peak Road, Kowloon, Hong Kong  18 of 7,700 share of and in the Sections C, D and F of New Kowloon Inland Lot No. 3515	The property comprises six car parking spaces on B/F of a 12-storey industrial building.  The property was completed in 1982.  The Government Rent payable for the New Kowloon Inland Lot No. 3515 is HK\$116 per annum.	The property is occupied by the Egana Group as carpark.	4,500,000 (100% interests attributable to the Egana Group: HK\$4,500,000)

*Notes:*

1. The registered owner of the property is Eco-Haru Property Investments Limited, which is the wholly-owned subsidiary of Egana.
2. The property is held under the Condition of Sale No. 4268 for a term of 75 years from 1 July 1898 and renewable for further 24 years and has extended until 30 June 2047 under the New Territories Leases (Extension) Ordinance (Cap. 150).
3. The property is subject to the following encumbrance:
  - a) The property is subject to a Mortgage in favour of Billion Empire Limited via a Memorial No. 07092802680034.
4. The property lies within an area zoned “Other Specified Uses” under the Cheung Sha Wan Outline Zoning Plan No. S/K5/30.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
3. Car parking space No. P28, Basement of Tower 1, Harbour Centre, 1 Hok Cheung Street, Hung Hom, Kowloon, Hong Kong.  2 of 13,205 share of and in the Sections F and H of Kowloon Marine Lot No. 113	The property comprises a car parking space on basement floor of a industrial building.  The property was completed in 1989.  The Government Rent payable for the New Kowloon Marine Lot. 113 is HK\$18,426 per annum.	The property is occupied by the Egana Group as carpark.	500,000 (100% interests attributable to the Egana Group: HK\$500,000)

*Notes:*

1. The registered owner of the property is Egana of Switzerland (Far East) Limited, which is the wholly-owned subsidiary of Egana.
2. The property is held under the Conditions of Exchange No. 11128 for a term of 75 years from 15 September 1972.
3. The property is subject to the following encumbrance:
  - a) The property is subject to a Mortgage in favour of Billion Empire Limited via a Memorial No. 07092802680011.
4. The property lies within an area zoned "Other Specified Uses" under the Hung Hom Outline Zoning Plan No. S/K9/21.

## Group II – Property interests held by the Egana Group in Germany

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
4. Neue Strasse 1, 99846 Seebach, Germany	<p>The property comprises a production and storage use building, an administration building with canteen, a storage building, a gatekeepers lodge and outdoor installation with a total floor area of approximately 9,625 sq.m..</p> <p>The property was completed in about 1934.</p> <p>The property occupies a site with a land area of approximately 19,741 sq.m.</p>	The property is occupied by the Egana Group as office and factory.	8,600,000 (100% interests attributable to the Egana Group: HK\$8,600,000)

*Notes:*

1. Pursuant to the recent land register search in Gotha land registry office conducted by the local valuer, the registered owner of the land use rights of the property with a land area of approximately 19,741 sq.m. is Eurochron GmbH, which is a wholly-owned subsidiary of Egana.
2. As confirmed by Egana, the property is not subject to a mortgage.
3. Our valuation conclusion is reached having regard to the valuation report undertaken by Gerhard Schlier, who is since 20 July 1994 from the chamber of industry and commerce Lahn/Dill publicly certified Expert for real estate valuation.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
5. Industriestrasse 7 – 9, 35614 Asslar, Germany	<p>The property comprises an office building, a storage hall and outdoor installations with a total floor area of approximately 2,511 sq.m. and 55 carparking spaces.</p> <p>The property was completed in about 1995.</p> <p>The property occupies a site with a land area of approximately 9,263 sq.m..</p>	The property is occupied by the Egana Group as office and warehouse.	25,800,000 (100% interests attributable to the Egana Group: HK\$25,800,000)

*Notes:*

1. Pursuant to the recent land register search in Marburg, Wetzlar branch land registry office conducted by the local valuer, the registered owner of the land use rights of the property with a land area of approximately 9,263 sq.m. is Haru Holding & Management GmbH, which is a wholly-owned subsidiary of Egana.
2. As confirmed by Egana, the property is not subject to a mortgage.
3. Our valuation conclusion is reached having regard to the valuation report undertaken by Gerhard Schlier, who is since 20 July 1994 from the chamber of industry and commerce Lahn/Dill publicly certified Expert for real estate valuation.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 <i>HK\$</i>
6. Saarstrasse 9, 55590 Meisenheim, Germany	<p>The property comprises two office and workshop buildings and outdoor installations with a total floor area of approximately 1,271 sq.m. and 10 sq.m. of carparking spaces.</p> <p>The property was completed in about 1893 and renovated in about 1999.</p> <p>The property occupies a site with a land area of approximately 1,371 sq.m..</p>	The property is occupied by the Egana Group as office and repair centre.	8,600,000 (100% interests attributable to the Egana Group: HK\$8,600,000)

*Notes:*

1. Pursuant to the recent land register search in Bad Kreuznach land registry office conducted by the local valuer, the registered owner of the land use rights of the property with a land area of approximately 1,371 sq.m. is Zeitmesstechnik GmbH, which is a wholly-owned subsidiary of Egana.
2. As confirmed by Egana, the property is not subject to a mortgage.
3. Our valuation conclusion is reached having regard to the valuation report undertaken by Gerhard Schlier, who is since 20 July 1994 from the chamber of industry and commerce Lahn/Dill publicly certified Expert for real estate valuation.



No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
7. Finkenweg 2 – 4, 74399 Walheim, Germany	The property comprises an administration building, a production hall, a storage hall, a sales and common room building and outdoor installations with a total floor area of approximately 4,243 sq.m. and 76 carparking spaces.  The property was completed in 1961 and renovated in about 2000.  The property occupies a site with a land area of approximately 6,602 sq.m..	The property is occupied by the Egana Group as office and workshop.	34,400,000 (100% interests attributable to the Egana Group: HK\$34,400,000)

*Notes:*

1. Pursuant to the recent land register search in Walheim land registry office conducted by the local valuer, the registered owner of the land use rights of the property with a land area of approximately 6,602 sq.m. is Sioux GmbH, which is a wholly-owned subsidiary of Egana.
2. The property is subject to the following encumbrance:
  - a) Under registration code 2876/29 a mortgage right has been registered for the Landesbank Baden-Württemberg in the amount of Euro 500,000 (dated: 23/12/2004).
  - b) Under registration code 2876/31 a mortgage right has been registered for the Landesbank Baden-Württemberg in the amount of Euro 1,000,000 (dated: 27/12/2004).
3. Our valuation conclusion is reached having regard to the valuation report undertaken by Gerhard Schlier, who is since 20 July 1994 from the chamber of industry and commerce Lahn/Dill publicly certified Expert for real estate valuation.

## Group III – Property interests held by the Egana Group in the Republic of Hungary

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
8. Andrassy út 37, District VI, Budapest, the Republic of Hungary	<p>The property comprises a retail unit with a total floor area of approximately 225 sq.m..</p> <p>The property was completed in about the beginning of the 20th century.</p> <p>The property occupies a site with a land area of approximately 744 sq.m. under the Plot Nos. 29379/0/A/2 &amp; 29379/0/A/4.</p>	The property is occupied by the Egana Group as retail shop.	19,270,000 (99.849% interests attributable to the Egana Group: HK\$19,240,902)

*Notes:*

1. Pursuant to the recent land register search in local land registry conducted by the local valuer, under the registration code 38863/1/2002/02.01.14, the registered owner of the property is Salamander Hungaria Kft, in which Egana holds 99.849% equity interests.
2. The property is subject to the following encumbrance:
  - a) Under registration code 30092/1/2006/05.01.18 a mortgage right has been registered for Magyarországi Volksbank Rt. in the amount of 462,000,000 Forint.
  - b) Under registration code 66800/1/2007/07.09.17 a mortgage right has been registered for Commerzbank Budapest Rt. in the amount of 270,000,000 Forint.
3. Our valuation conclusion is reached having regard to the valuation report undertaken by János Hidasi, Ábel Tökés and Ákos Balla. János Hidasi is a corporate member of Royal Institution of Chartered Surveyors and has over 10 years' valuation experience in Hungary; Ábel Tökés is a corporate member of Royal Institution of Chartered Surveyors and has over 4 years' valuation experience in Hungary; Ákos Balla has also over 6 years' valuation experience in Hungary.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
9. Károly körút 25, District VII, Budapest, the Republic of Hungary	<p>The property comprises a retail unit with a total floor area of approximately 78 sq.m..</p> <p>The property was completed in about the beginning of the 20th century.</p> <p>The property occupies a site with a land area of approximately 452 sq.m. under the Plot No. 34213/22/A/5.</p>	The property is occupied by the Egana Group as retail shop.	5,060,000 (99.849% interests attributable to the Egana Group: HK\$5,052,359)

*Notes:*

1. Pursuant to the recent land register search in local land registry conducted by the local valuer, under the registration code 107009/1/1999/98.02.12, the registered owner of the property is Salamander Hungaria Kereskedelmi Kft, in which Egana holds 99.849% equity interests.
2. The property is subject to the following encumbrance:
  - a) Under registration code 86408/1/2006/05.01.18 a mortgage right has been registered for Magyarországi Volksbank Rt. in the amount of 462,000,000 Forint.
  - b) Under registration code 252925/1/2007/07.09.17 a mortgage right has been registered for Commerzbank zrt. in the amount of 270,000,000 Forint.
3. Our valuation conclusion is reached having regard to the valuation report undertaken by János Hidasi, Ábel Tökés and Ákos Balla. János Hidasi is a corporate member of Royal Institution of Chartered Surveyors and has over 10 years' valuation experience in Hungary; Ábel Tökés is a corporate member of Royal Institution of Chartered Surveyors and has over 4 years' valuation experience in Hungary; Ákos Balla has also over 6 years' valuation experience in Hungary.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
10. Erzsébet körút 2, District VII, Budapest, the Republic of Hungary	<p>The property comprises a retail unit with a total floor area of approximately 52 sq.m..</p> <p>The property was completed in about the beginning of the 20th century.</p> <p>The property occupies a site with a land area of approximately 1,094 sq.m. under the Plot No. 34565/0/A/4.</p>	<p>The property is leased to an independent third party for commercial use. The monthly rental is EUR 1716 for a term from 1st January 2007 to 31st December 2011.</p>	<p>3,100,000 (99.849% interests attributable to the Egana Group: HK\$3,095,319)</p>

*Notes:*

1. Pursuant to the recent land register search in local land registry conducted by the local valuer, under the registration code 252925/2/2007/07.09.26, the registered owner of the property is Salamander Hungaria Kereskedelmi Kft, in which Egana holds 99.849% equity interests.
2. The property is subject to the following encumbrance:
  - a) Under registration code 86408/1/2006/05.01.18 a mortgage right has been registered for Magyarországi Volksbank Rt. in the amount of 462,000,000 Forint.
  - b) Under registration code 252925/1/2007/07.09.17 a mortgage right has been registered for Commerzbank zrt. in the amount of 270,000,000 Forint.
3. Our valuation conclusion is reached having regard to the valuation report undertaken by János Hidasi, Ábel Tökés and Ákos Balla. János Hidasi is a corporate member of Royal Institution of Chartered Surveyors and has over 10 years' valuation experience in Hungary; Ábel Tökés is a corporate member of Royal Institution of Chartered Surveyors and has over 4 years' valuation experience in Hungary; Ákos Balla has also over 6 years' valuation experience in Hungary.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
11. Erzsébet körút 18, District VII, Budapest, the Republic of Hungary	<p>The property comprises a retail unit with a total floor area of approximately 156 sq.m..</p> <p>The property was completed in about the beginning of the 20th century.</p> <p>The property occupies a site with a land area of approximately 868 sq.m. under the Plot No. 34369/0/A/2.</p>	The property is occupied by the Egana Group as retail shop.	7,290,000 (99.849% interests attributable to the Egana Group: HK\$7,278,992)

*Notes:*

1. Pursuant to the recent land register search in local land registry conducted by the local valuer, under the registration code 252925/2/2007/07.09.26, the registered owner of the property is Salamander Hungaria Kft, in which Egana holds 99.849% equity interests.
2. The property is subject to the following encumbrance:
  - a) Under registration code 86408/1/2006/05.01.18 a mortgage right has been registered for Magyarországi Volksbank Rt. in the amount of 462,000,000 Forint.
  - b) Under registration code 252925/1/2007/07.09.17 a mortgage right has been registered for Commerzbank zrt. in the amount of 270,000,000 Forint.
3. Our valuation conclusion is reached having regard to the valuation report undertaken by János Hidasi, Ábel Tökés and Ákos Balla. János Hidasi is a corporate member of Royal Institution of Chartered Surveyors and has over 10 years' valuation experience in Hungary; Ábel Tökés is a corporate member of Royal Institution of Chartered Surveyors and has over 4 years' valuation experience in Hungary; Ákos Balla has also over 6 years' valuation experience in Hungary.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
12. Erzsébet körút 36, District VII, Budapest, the Republic of Hungary	The property comprises a retail unit with a total floor area of approximately 288 sq.m. including the approximately 60 sq.m. storage on the basement.	The property is occupied by the Egana Group as retail shop.	12,220,000 (99.849% interests attributable to the Egana Group: HK\$12,201,548)
	The property was completed in about the beginning of the 20th century.		
	The property occupies a site with a land area of approximately 868 sq.m. under the Plot No. 34357/0/A/2.		

*Notes:*

1. Pursuant to the recent land register search in local land registry conducted by the local valuer, under the registration code 252925/2/2007/07.09.26, the registered owner of the property is Salamander Hungaria Kft, in which Egana holds 99.849% equity interests.
2. The property is subject to the following encumbrance:
  - a) Under registration code 86408/1/2006/05.01.18 a mortgage right has been registered for Magyarországi Volksbank Rt. in the amount of 462,000,000 Forint.
  - b) Under registration code 252925/1/2007/07.09.17 a mortgage right has been registered for Commerzbank zrt. in the amount of 270,000,000 Forint.
3. Our valuation conclusion is reached having regard to the valuation report undertaken by János Hidasi, Ábel Tökés and Ákos Balla. János Hidasi is a corporate member of Royal Institution of Chartered Surveyors and has over 10 years' valuation experience in Hungary; Ábel Tökés is a corporate member of Royal Institution of Chartered Surveyors and has over 4 years' valuation experience in Hungary; Ákos Balla has also over 6 years' valuation experience in Hungary.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
13. Baross tér 16-17, District VII, Budapest, the Republic of Hungary	<p>The property comprises a unit with a total floor area of approximately 270 sq.m..</p> <p>The property was completed in about the beginning of the 20th century.</p> <p>The property occupies a site with a land area of approximately 2,057 sq.m. under the Plot Nos. 34960/0/A/1 and 32960/0/A/3.</p>	<p>The property is leased to two independent third parties for commercial use. The monthly rentals are EUR 2057.5 for a term from 15th March 2008 to 1st of January 2009 and EUR 8139 for a term from 3rd of January 2006 to 2nd of January 2015 respectively.</p>	<p>15,100,000 (99.849% interests attributable to the Egana Group: HK\$15,077,199)</p>

*Notes:*

1. Pursuant to the recent land register search in local land registry conducted by the local valuer, under the registration code 252925/2/2007/07.09.26, the registered owner of the property is Salamander Hungaria Kft, in which Egana holds 99.849% equity interests.
2. The property is subject to the following encumbrance:
  - a) Under registration code 86408/1/2006/05.01.18 a mortgage right has been registered for Magyarországi Volksbank Rt. in the amount of 462,000,000 Forint.
  - b) Under registration code 252925/1/2007/07.09.17 a mortgage right has been registered for Commerzbank zrt. in the amount of 270,000,000 Forint.
3. Our valuation conclusion is reached having regard to the valuation report undertaken by János Hidasi, Ábel Tökés and Ákos Balla. János Hidasi is a corporate member of Royal Institution of Chartered Surveyors and has over 10 years' valuation experience in Hungary; Ábel Tökés is a corporate member of Royal Institution of Chartered Surveyors and has over 4 years' valuation experience in Hungary; Ákos Balla has also over 6 years' valuation experience in Hungary.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
14. Alkotás út. 1/a, District XII, Budapest, the Republic of Hungary	<p>The property comprises a retail unit with a total floor area of approximately 270 sq.m..</p> <p>The property was completed in about the beginning of the 20th century.</p> <p>The property occupies a site with a land area of approximately 2,057 sq.m. under the Plot No. 389.</p>	The property is occupied by the Egana Group as retail shop.	5,060,000 (99.849% interests attributable to the Egana Group: HK\$5,052,359)

*Notes:*

1. Pursuant to the recent land register search in local land registry conducted by the local valuer, under the registration code 86408/2006/93.12.31, the registered owner of the property is Salamander Hungaria Kft, in which Egana holds 99.849% equity interests.
2. The property is subject to the following encumbrance:
  - a) Under registration code 86408/1/2006/05.01.18 a mortgage right has been registered for Magyarországi Volksbank Rt. in the amount of 462,000,000 Forint.
  - b) Under registration code 252925/1/2007/07.09.17 a mortgage right has been registered for Commerzbank zrt. in the amount of 270,000,000 Forint.
3. Our valuation conclusion is reached having regard to the valuation report undertaken by János Hidasi, Ábel Tökés and Ákos Balla. János Hidasi is a corporate member of Royal Institution of Chartered Surveyors and has over 10 years' valuation experience in Hungary; Ábel Tökés is a corporate member of Royal Institution of Chartered Surveyors and has over 4 years' valuation experience in Hungary; Ákos Balla has also over 6 years' valuation experience in Hungary.



No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
15. Csopak, Rozmaring utca 4., Veszprém County, The Republic of Hungary	<p>The property comprises a detached house with a total floor area of approximately 101 sq.m..</p> <p>The property was completed in about 1930.</p> <p>The property occupies a site with a land area of approximately 1,086 sq.m. under the Plot No. 7069/0/A/8.</p>	The property is occupied by the Egana Group as cottage for employees.	<p>940,000 (99.849% interests attributable to the Egana Group: HK\$938,581)</p>

*Notes:*

1. Pursuant to the recent land register search in local land registry conducted by the local valuer, under the ownership document date 11 April 2008, the registered owner of the property is Fönicia Kereskedelmi Kft, in which Egana holds 99.849% equity interests.
2. As confirmed by Egana, the property is not subject to a mortgage.
3. Our valuation conclusion is reached having regard to the valuation report undertaken by János Hidasi, Ábel Tökés and Ákos Balla. János Hidasi is a corporate member of Royal Institution of Chartered Surveyors and has over 10 years' valuation experience in Hungary; Ábel Tökés is a corporate member of Royal Institution of Chartered Surveyors and has over 4 years' valuation experience in Hungary; Ákos Balla has also over 6 years' valuation experience in Hungary.

## Group IV – Property interests held by the Egana Group in France

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
16. 1 bis rue du Docteur Bally, 2 rue de Miribel, 38000 Grenoble, France	<p>The property comprises a retail unit with a total floor area of approximately 273 sq.m..</p> <p>The property was brought by the Egana Group in 1972.</p> <p>The property was completed in approximately between 1940 and 1950.</p> <p>The property occupies a site with a land area of approximately 389 sq.m..</p>	The property is occupied by the Egana Group as retail shop.	12,700,000 (100% interests attributable to the Egana Group: HK\$12,700,000)

*Notes:*

1. Pursuant to the recent land register search in the local land registry conducted by the local valuer, the registered owner of the land use rights of the property with a land area of approximately 389 sq.m. is Salamander France S.A.S, which is a wholly-owned subsidiary of Egana.
2. As confirmed by Egana, the property is not subject to a mortgage.
3. Our valuation conclusion is reached having regard to the valuation report undertaken by Philippe Rebotton who is a member of Royal Institution of Chartered Surveyors, membership number 1208150 and has over 5 years' valuation experience in France.

## Group V – Property interests held by the Egana Group in Portugal

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
17. 1791 Lousada, 13 Porto, 05 Lousada, 03 Boim, Town of S. Jorge, 4620 – 31 Boim Lousada, Portugal	<p>The property comprises a pavilion occupation area, electric cabin occupation area, water pump cabin occupation area, gas cabin occupation area and yard area with a total area of approximately 12,115 sq.m.</p> <p>The property was completed in 1986 and renovated in about 1999.</p> <p>The property occupies a site with a land area of approximately 12,113 sq.m.</p>	The property is occupied by the Egana Group as factory.	32,400,000 (100% interests attributable to the Egana Group: HK\$32,400,000)

*Notes:*

1. Pursuant to the recent land register search in the local land registry conducted by the local valuer, the registered owner of the land use rights of the property with a land area of approximately 12,113 sq.m. is Sioux Portuguesa – Fabrica De Calcado Unipessoal Lda, which is a wholly-owned subsidiary of Egana.
2. The property is subject to the following encumbrance:
  - (a) Under registration code 162-D a mortgage right has been registered for the Banco Espirito Santo in the amount of Euro 700,000 (dated: 13/08/2004).
3. Our valuation conclusion is reached having regard to the valuation report undertaken by Manuel Jorge Teixeira da Mota who is a Secretary of the PERMANENT APPRAISAL COMMITTEE OF URBAN PROPERTY IN THE COUNTY OF LOUSADA for the year of 1979 and has been registered at the Revenue Department as an “Expert Appraiser” CAE 1331 (economic activity classification since the year of 1987).

## Group VI – Property interests held by the Egana Group in Thailand

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
18. 4/4-7, Kor Tarpra Subdidtrict, Bangkok Yai District, Bangkok, Thailand	<p>The property comprises a 5-storey commercial building with a floor area of approximately 1,080 sq.m..</p> <p>The property was completed in about 1989.</p> <p>The property occupies a site with a land area of approximately 692 sq.m..</p>	The property is occupied by the Egana Group as factory.	5,500,000 (100% interests attributable to the Egana Group: HK\$5,500,000)

*Notes:*

1. We have been provided with a legal opinion on the property prepared by the Group's Thailand legal advisor, which contains, inter alia, the following information:
  - a) Pursuant to the documents concerning the Title of the properties, the owner of the property is in the name of Keimothai Ltd.–
    - i) Title Deed No. 29063, Land No. 142, Survey No. 13005, Area 19 Square wah;
    - ii) Title Deed No. 29064, Land No. 141, Survey No. 13006, Area 19 Square wah;
    - iii) Title Deed No. 29065, Land No. 140, Survey No. 13007, Area 19 Square wah;
    - iv) Title Deed No. 29066, Land No. 139, Survey No. 13008, Area 19 Square wah;
    - v) Title Deed No. 30941, Land No. 531, Survey No. 14455, Area 30 Square wah;
    - vi) Title Deed No. 2712, Land No. 143, Survey No. 1131, Area 67 Square wah.
  - b) Land title deeds No. 29063-29066, 30941 and 2712 are not bound to any encumbrance.
  - c) Land on title 2712 is encumbered free hold law for a partial private walkway, road traffic, public water, telephone, drainage and other public utility systems of the title 29070 located at same subdistrict and district, all in accordance with agreement dated 23 June 1994.
  - d) Keimothai Ltd., a wholly-owned subsidiary of Egana, has got a clear title to all the above properties including Land & buildings, free of any encumbrances, except with regards to Land on Title 2712 to the extent mentioned within the remarks above. Keimothai is entitled to sell, occupy, use, transfer, lease and mortgage all or any of the above mentioned properties.
2. Our valuation conclusion is reached having regard to the valuation report undertaken by Chawalit Monchasing who has more than 19 years property valuation experiences in Thailand.

## Group VII – Property interests rented by the Egana Group

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
19. 5 properties rented by Time Success Industrial Limited in Shenzhen City, the PRC	As advised by Egana, the property comprises 5 properties with a total gross floor area of approximately 17,867 sq.m.	The property is leased by the Egana Group as factories, worker quarters, canteen, office and training & exhibition center.	No commercial value

## Notes:

1. Pursuant to the tenancy agreements provided by Egana, some details on the property in Shenzhen City are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
Factory No. 2, Shang Qi Sha Tong Fu Industrial Complex Nan Nong Village Nan Ao Town Long Gang District	Shenzhen City Nan Ao Town, Nan Nong Economic Development Company Limited	Time Success Industrial Limited	3,700	01/08/2002 – 30/07/2012	RMB 25,900	Factory	2002
Factory No. 3, Shang Qi Sha Tong Fu Industrial Complex Nan Nong Village Nan Ao Town Long Gang District	Shenzhen City Nan Ao Town, Nan Nong Economic Development Company Limited	Time Success Industrial Limited	2,330	01/08/2002 – 30/07/2012	RMB 16,310	Factory	2002
1/F – 6/F, Staff quarter No. 1 Shang Qi Sha Tong Fu Industrial Complex Nan Nong Village Nan Ao Town Long Gang District	Shenzhen City Nan Ao Town, Nan Nong Economic Development Company Limited	Time Success Industrial Limited	4,500	01/08/2002 – 30/07/2012	RMB 31,500	Staff quarter & canteen	2002
Staff quarter No. 3 Nan Long Tong Fu Industrial Complex Nan Ao street	Shenzhen City Nan Long Joint Stock Company	Time Success Industrial Limited	2,300	01/05/2005 – 30/04/2015	RMB 16,100	Staff quarter	2005
Factory No. 1 Nan Long Tong Fu Industrial Complex Nan Ao Street	Shenzhen City Nan Long Joint Stock Company	Time Success Industrial Limited	5,037	01/02/2007 – 31/01/2017	RMB 65,481	Office, Training & exhibition center	2006
		Total	<u>17,867</u>				

2. We were advised the owner of the property is an independent third party from the Egana Group.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
20. 9 properties rented by Everstone Limited in Shenzhen City, the PRC	As advised by Egana, the property comprises 9 properties with a total gross floor area of approximately 18,462.00 sq.m.	The property is leased by the Egana Group as factories, worker quarters, warehouse and staff recreational facilities.	No commercial value

## Notes:

1. Pursuant to the tenancy agreements provided by Egana, some details on the property in Shenzhen City are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
Factory A, 11 Shui Sha Road, Shui Tou Sha Village, Nan Ao Town, Long Gang District	Shenzhen City Long Gang District Nan Ao Town Shui Tou Sha Village Economic Development Company	Everstone Limited	2,400	01/06/1996 – 31/05/2011	RMB 20,400	Factory	1996
Factory B, 11 Shui Sha Road, Shui Tou Sha Village, Nan Ao Town, Long Gang District	Shenzhen City Long Gang District Nan Ao Town Shui Tou Sha Village Economic Development Company	Everstone Limited	2,400	01/01/1998 – 31/12/2011	RMB 18,000	Factory	1992
Building 1, Factory area, 11 Shui Sha Road, Shui Tou Sha Village, Nan Ao Town, Long Gang District	Shenzhen City Long Gang District Nan Ao Town Shui Tou Sha Village Economic Development Company	Everstone Limited	1,700	01/06/1996 – 31/05/2011	RMB 11,900	Quarter	1993
11 Shui Sha Road, Shui Tou Sha Village, Nan Ao Town, Long Gang District	Shenzhen City Nan Ao Shui Tou Sha Economic Development Company	Everstone Limited	5,122	11/11/2002 – 31/05/2011	RMB 35,854	Quarter	2005
11 Shui Sha Road, Shui Tou Sha Village, Nan Ao Town, Long Gang District	Shenzhen City Nan Ao Shui Tou Sha Economic Development Company	Everstone Limited	1,200	01/09/2004 – 31/05/2011	RMB 8,400	Quarter	2004
6 Wen Ming Road, Shui Tou Sha Village, Nan Ao Town, Long Gang District	Huang Run Mei	Everstone Limited	640	01/11/2005 – 31/10/2008	RMB 7,500	Quarter	2000

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
Factory Area, 11 Shui Sha Road, Shui Tou Sha Village, Nan Ao Town, Long Gang District	Shenzhen City Nan Ao Shui Tou Sha Joint Stock Company	Everstone Limited	300	01/11/2005 – 31/05/2011	RMB 1,200	Warehouse	2005
11 Shui Sha Road, Shui Tou Sha Village, Nan Ao Town, Long Gang District	Shenzhen City Nan Ao Shui Tou Sha Joint Stock Company	Everstone Limited	1,700	16/06/2007 – 31/05/2011	RMB 13,600	Quarter	2007
11 Shui Sha Road, Shui Tou Sha Village, Nan Ao Town, Long Gang District	Shenzhen City Nan Ao Shui Tou Sha Joint Stock Company	Everstone Limited	3,000	01/09/2006 – 31/08/2011	RMB 9,000	Football field	2006
		Total	<u>18,462</u>				

2. We were advised the owner of the property is an independent third party from the Egana Group.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
21. A property rented by Bartelli Leather Products Limited in Shenzhen City, the PRC	As advised by Egana, the property comprises a property with a total gross floor area of approximately 3,900.00 sq.m.	The property is leased by the Egana Group as factory.	No commercial value

*Notes:*

1. Pursuant to the tenancy agreement provided by Egana, some details on the property in Shenzhen City are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
Factory No. 4, Shang Qi Sha Tong Fu Industrial Complex, Nan Long Village, Nan Ao Town, Long Gang District	Shenzhen City Nan Long Joint Stock Company	Bartelli Leather Products Limited	3,900	01/05/2006 – 30/04/2016	RMB 31,200	Factory	2005
		Total	<u>3,900</u>				

2. We were advised the owner of the property is an independent third party from the Egana Group.



No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
22. A property rented by Bartelli Leather Products (Shenzhen) Co. Limited in Shenzhen City, the PRC	As advised by Egana, the property comprises a property with a total gross floor area of approximately 10,000 sq.m.	The property is leased by the Egana Group as factory and staff quarter.	No commercial value

*Notes:*

- Pursuant to the tenancy agreement provided by Egana, some details on the property in Shenzhen City are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
Factory No. 5 & Staff quarter No. 2, Shang Qi Sha	Shenzhen City Nan Ao Town Nan Nong Development	Bartelli Leather Products (Shenzhen) Co. Ltd.	Factory 5,500	01/01/2004 – 31/12/2014	RMB 65,000	Factory/ staff quarter	2003
Tong Fu Industrial Complex, Nan Nong Village, Nan Ao Town, Long Gang District	Company Limited		Staff Quarter 4,500				
		Total	<u>10,000</u>				

- We were advised the owner of the property is an independent third party from the Egana Group.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
23. 3 properties rented by Goldpfeil Distribution and Services Limited in Hong Kong	As advised by Egana, the property comprises 3 properties with a total gross floor area of approximately 51.65 sq.m excluding the advertising sign and retail shop warehouse.	The property is leased by the Egana Group as advertising sign, retail shop & warehouse.	No commercial value

## Notes:

- Pursuant to the tenancy agreements provided by Egana, some details on the property in Hong Kong are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion year	Government rent	Held under	Land Lease Term	Commencement of Lease Term
Shop No. 331, Level 3, The Marco Polo Hongkong Hotel Arcade, Harbour City, Kowloon	Harbour City Estates Limited	Goldpfeil Distribution and Services Limited	51.65	01/08/2007 – 30/06/2008	HK\$ 66,720	Retail shop	1999	HK\$2,324	Government Lease	999 years	13/09/1881
Advertising Sign Space No. SBE11, Ground Floor, Gateway Arcade, Harbour City, Kowloon	Harbour City Estates Limited	Goldpfeil Distribution and Services Limited	N/A	01/08/2007 – 30/06/2008	HK\$ 2,000	Advertising Sign	1999	HK\$2,324	Government Lease	999 years	13/09/1881
Showcase No. 335, Level 3, The Marco Polo Hongkong Hotel Arcade, Harbour City, Kowloon	Harbour City Estates Limited	Goldpfeil Distribution and Services Limited	N/A	01/08/2007 – 30/06/2008	HK\$ 3,000	Retail shop warehouse	1999	HK\$2,324	Government Lease	999 years	13/09/1881
Total			51.65								

- We were advised the owner of the property is an independent third party from the Egana Group.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
24. A property rented by Egana of Switzerland (Far East) Limited in Hong Kong	As advised by Egana, the property comprises a property with a total gross floor area of approximately 134.71 sq.m.	The property is leased by the Egana Group as staff quarter.	No commercial value

*Notes:*

- Pursuant to the tenancy agreement provided by Egana, some details on the property in Hong Kong are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion year	Government rent	Held under	Land Lease Term	Commencement of Land Lease Term
Flat 2, 4/F, Blk. B, Y.Y. Mansion, 96 Pokfulam Road, Hong Kong	Kwok Wing Sun & Lau Yi Man, Amy	Egana of Switzerland (Far East) Limited	134.71	01/02/2008 – 31/01/2010	HKS 30,000	Staff quarter	1967	HK\$208	Government Lease	75 Years for 75 Years	27/2/1922
		Total	134.71								

- We were advised the owner of the property is an independent third party from the Egana Group.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
25. 5 properties rented by Egana-Haru Mfr. Corp. Limited in Hong Kong	As advised by Egana, the property comprises 5 properties with a total gross floor area of approximately 406.08 sq.m.	The property is leased by the Egana Group as staff quarters.	No commercial value

*Notes:*

1. Pursuant to the tenancy agreements provided by Egana, some details on the property in Hong Kong are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m.		Monthly rental	Use	Completion year	Government rent	Held under	Land Lease Term	Commencement of Lease Term
			(Approximately)	Lease term							
Flat A, 7/F., The Bellevue Place, 8 U Lam Terrace, Mid Levels, Hong Kong	Meyer-Rochow, Rembert Yarom	Egana-Haru Mfr. Corp. Limited	46.45	16/06/2006 – 15/06/2008	HK\$ 13,500	Staff quarter	1999	HK\$319,914	Government Lease	75 Years Renewable for 75 Years	27/12/1911
Flat C, 27-28/F together with the roof C of Blk 15, Hong Kong Gold Coast, Tuen Mun, N.T	Baynard Ltd.	Egana-Haru Mfr. Corp. Limited	134.71	20/11/2007 – 19/11/2009	HK\$ 26,000	Staff quarter	1992	3% of the prevailing rateable value.	New Grant No.2607	Extended to 30 June 2047 under the Ordinance	01/07/1898
Flat D, 11/F, The Bellevue Place, 8 U Lam Terrace Hong Kong	Michael Melwood Smith	Egana-Haru Mfr. Corp. Limited	49.24	15/01/2008 – 14/03/2008 15/03/2008 – 14/01/2010	HK\$ 13,000; HK\$ 14,250	Staff quarter	1999	HK\$319,914	Government Lease	75 Years Renewable for 75 Years	27/12/1911
Flat A, 10/F, Block 19, together with one car park space of Hong Kong Gold Coast, Tuen Mun, N.T	Baynard Ltd.	Egana-Haru Mfr. Corp. Limited	127.46	01/08/2006 – 31/07/2008	HK\$ 22,000	Staff quarter	1999	3% of the prevailing rateable value.	New Grant No.2607	Extended to 30 June 2047 under the Ordinance	01/07/1898
Flat E, 8/F Corona Tower, No. 93 Caine Road Hong Kong	Yau Sai Wing/Kwok Sau Kam/Yau Leung	Egana-Haru Mfr. Corp. Limited	48.22	15/10/2006 – 14/10/2008	HK\$ 12,000	Staff quarter	1990	HK\$71.25	Government Lease	999 years	22/01/1844
Total			406.08								

2. We were advised the owner of the property is an independent third party from the Egana Group.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
26. 13 properties rented by Eco-Haru Property Investments Limited in Hong Kong	As advised by Egana, the property comprises 13 properties with a total gross floor area of approximately 8,799.34 sq.m.	The property is leased by the Egana Group as offices, warehouses, staff quarter & workshop.	No commercial value

*Notes:*

- Pursuant to the tenancy agreements provided by Egana, some details on the property in Hong Kong are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m.		Monthly rental	Use	Completion year	Government rent	Held under	Land Lease Term	Commencement of	
			(Approximately)	Lease term							Lease Term	Lease Term
Block C1, 11/F, Hong Kong Industrial Centre, 489-491 Castle Peak Road, Cheung Sha Wan, Kowloon	Chan Kam Fai	Eco-Haru Property Investments Limited	280.38	16/11/2007 – 15/11/2010	HK\$ 31,500	Office	1982	3% of the prevailing rateable value	Condition of Sale No.4268	Extended to 30 June 2047 under the Ordinance	01/07/1898	
Block C2, 11/F, Hong Kong Industrial Centre, 489-491 Castle Peak Road, Cheung Sha Wan, Kowloon	Chan Kam Wah	Eco-Haru Property Investments Limited	190.26	16/06/2007 – 15/06/2010	HK\$ 22,500	Office	1982	3% of the prevailing rateable value	Condition of Sale No.4268	Extended to 30 June 2047 under the Ordinance	01/07/1898	
Block C4, 11/F, Hong Kong Industrial Centre, 489-491 Castle Peak Road, Cheung Sha Wan, Kowloon	Chan Kam Fai	Eco-Haru Property Investments Limited	280.29	25/09/2007 – 24/09/2010	HK\$ 31,500	Office	1982	3% of the prevailing rateable value	Condition of Sale No.4268	Extended to 30 June 2047 under the Ordinance	01/07/1898	
Block C5 & C6, 11/F, Hong Kong Industrial Centre, 489-491 Castle Peak Road, Cheung Sha Wan, Kowloon	Wide Gain Asia Ltd.	Eco-Haru Property Investments Limited	303.05	01/9/2007 – 31/08/2009	HK\$ 49,800	Office	1982	3% of the prevailing rateable value	Condition of Sale No.4268	Extended to 30 June 2047 under the Ordinance	01/07/1898	
Block C1B, 12/F, Hong Kong Industrial Centre, 489-491 Castle Peak Road, Cheung Sha Wan, Kowloon	Lau Nai Cheung	Eco-Haru Property Investments Limited	167.22	01/9/2007 – 31/08/2009	HK\$ 16,000	Office	1982	3% of the prevailing rateable value	Condition of Sale No.4268	Extended to 30 June 2047 under the Ordinance	01/07/1898	
Block C14, 12/F, Hong Kong Industrial Centre, 489-491 Castle Peak Road, Cheung Sha Wan, Kowloon	Chow Chi Fak	Eco-Haru Property Investments Limited	157.93	21/05/2007 – 20/05/2009	HK\$ 16,000	Office	1982	3% of the prevailing rateable value	Condition of Sale No.4268	Extended to 30 June 2047 under the Ordinance	01/07/1898	
Block C7 & C8, 10/F, Hong Kong Industrial Centre, 489-491 Castle Peak Road, Cheung Sha Wan, Kowloon	Gainton International Ltd.	Eco-Haru Property Investments Limited	288.37	01/04/2007 – 31/03/2009	HK\$ 36,000	Warehouse	1982	3% of the prevailing rateable value	Condition of Sale No.4268	Extended to 30 June 2047 under the Ordinance	01/07/1898	

Property Address	Owner	Tenant	Gross floor		Monthly rental	Use	Completion year	Government rent	Held under	Land Lease Term	Commencement of Lease Term
			area/sq.m. (Approximately)	Lease term							
Flat A, 16/F, Block 2, Clovelly Court, No.12 May Road, Hong Kong with Car Parking No.191	Chan Lai Kwan	Eco-Haru Property Investments Limited	196.49	18/06/2007 – 17/06/2009	HKS 76,000	Staff quarter	1994	HK\$1,678	Government Lease	999 Years	05/11/1888
Workshop No.4, 1/F, Veristrong Industrial Centre 34-36 Au Pui Wan Street, Shatin, N.T.	Veristrong Co. Ltd.	Eco-Haru Property Investments Limited	472.41	16/05/2007 – 15/05/2009	HKS 33,000	Warehouse	1988	3% of the prevailing rateable value	New Grant No.11624	Extended to 30 June 2047 under the Ordinance	01/07/1898
Workshop 6-10, 14-16, 16/F, Block B, Veristrong Industrial Centre, 34-36 Au Pui Wan Street, Shatin, N.T.	Asial group Ltd.	Eco-Haru Property Investments Limited	969.90	16/09/2007 – 15/09/2009	HKS 40,000	Warehouse	1988	3% of the prevailing rateable value	New Grant No.11624	Extended to 30 June 2047 under the Ordinance	01/07/1898
Workshop 1-6, 17/F, Block B, Veristrong Industrial Centre, 34-36 Au Pui Wan Street, Shatin, N.T.	Veristrong Co. Ltd.	Eco-Haru Property Investments Limited	735.23	01/10/2007 – 30/09/2009	HKS 42,209	Warehouse	1988	3% of the prevailing rateable value	New Grant No.11624	Extended to 30 June 2047 under the Ordinance	01/07/1898
Workshop 7-10 & 14-16, 17/F, Block B, Veristrong Industrial Centre, 34-36 Au Pui Wan Street, Shatin, N.T.	Veristrong Co. Ltd.	Eco-Haru Property Investments Limited	855.91	13/08/2007 – 12/08/2009	HKS 49,000	Workshop & Warehouse	1988	3% of the prevailing rateable value	New Grant No.11624	Extended to 30 June 2047 under the Ordinance	01/07/1898
6/F, East Asia Industrial Building., 2 Ho Tin Street, Tuen Mun, N.T.	Ho Tin Investments No. 1 Ltd.	Eco-Haru Property Investments Limited	3,901.90	01/10/2007 – 30/09/2009	HKS 130,000	Warehouse	1988	3% of the prevailing rateable value	New Grant No.11624	Extended to 30 June 2047 under the Ordinance	01/07/1898
		Total			<u>8,799.34</u>						

2. We were advised the owner of the property is an independent third party from the Egana Group.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
27. 4 properties rented by EganaGoldpfeil (Japan) Limited in Japan	As advised by Egana, the property comprises 4 properties with a total gross floor area of approximately 739.89 sq.m.	The property is leased by the Egana Group as office & shops.	No commercial value

*Notes:*

1. Pursuant to the tenancy agreements provided by Egana, some details on the property in Japan are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
7F, 5-26-19 Nishi-Ikebukuro, Toshima-ku, Tokyo 171-0021	King Land Corporation Ltd.	EganaGoldpfeil (Japan) Limited	309.91	01/08/2006 – 31/07/2008	JPY 1,298,715	Office	1992
1F, 1-2-4 Ginza, Chuo-ku, Tokyo 104-0061	Success Factory Ltd.	EganaGoldpfeil (Japan) Limited	323.06	10/01/2006 – 09/01/2009	JPY 5,375,150	Shop	2003
2F, 1-1-1Uchisaiwaicho, Chiyoda-ku, Tokyo 100-8558	Imperial Hotel Tokyo	EganaGoldpfeil (Japan) Limited	36.30	01/04/2007 – 31/03/2012	JPY 704,916	Shop	1983
Hilton Plaza, 3F, 1-8-16 Umeda, Kita-ku, Osaka-Shi 530-0001	Yoshimoto Building Co., Ltd.	EganaGoldpfeil (Japan) Limited	70.62	10/02/2001 – 29/02/2011	JPY 906,500	Shop	2001
Total			<u>739.89</u>				

2. We were advised the owner of the property is an independent third party from the Egana Group.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
28. A property rented by Keimothai Limited in Thailand	As advised by Egana, the property comprises a property with a total gross floor area of approximately 324 sq.m.	The property is leased by the Egana Group as factory (50%) & office (50%).	No commercial value

*Notes:*

- Pursuant to the tenancy agreement provided by Egana, some details on the property in Thailand are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
4/8 Ratchadapisek Road, Wathapra, Bangkok-yai, Bangkok 10600	Mr. Visit Himakorn	Keimothai Limited	324	01/01/2008 – 31/12/2010	Baht 24,000	Factory – (50%) & Office – (50%)	1990
		Total	<u>324</u>				

- We were advised the owner of the property is an independent third party from the Egana Group.



No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
29. A property rented by EganaGoldpfeil USA, Inc. in USA	As advised by Egana, the property comprises a property with a total gross floor area of approximately 627.37 sq.m.	The property is leased by the Egana Group as office space, safe area and sample inventory & storage and file areas.	No commercial value

*Notes:*

- Pursuant to the tenancy agreement provided by Egana, some details on the property in USA are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
4951 Airport Parkway, Suite 802B, 803 Addison, TX 75001	Kennington Capital	EganaGoldpfeil USA, Inc.	627.37	01/11/2000 – 28/02/2009	USD 6,070	75% office space; 15% safe area and sample inventory & 10% storage and file areas	1985
		Total	<u>627.37</u>				

- We were advised the owner of the property is an independent third party from the Egana Group.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 <i>HK\$</i>
30. 8 properties rented by Egana India Private Limited in India	As advised by Egana, the property comprises 8 properties with a total gross floor area of approximately 810.47 sq.m.	The property is leased by the Egana Group as warehouse, office & shop.	No commercial value

*Notes:*

- Pursuant to the tenancy agreements provided by Egana, some details on the property in India are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
Gala No. 142, A-Z Industrial Estate, 1st Floor, Ganpat Rao Kadam Marg, Lower Parel, Mumbai-400013	A. N. Surve Binders	Egana India Private Limited	80.36	26/11/2007 – 25/11/2010	USD 1,585.37	Warehouse	1963
Gala No. 140, A-Z Industrial Estate, 1st Floor, Ganpat Rao Kadam Marg, Lower Parel, Mumbai-400013	Sundha Printers	Egana India Private Limited	80.36	26/11/2007 – 25/11/2010	USD 1,585.37	Warehouse	1963
Tieccicon House, 1st Floor, Dr. E.Moses Road, Mahalaxmi(W), Mumbai-400011	N.D.Vaidya HUF	Egana India Private Limited	278.71	01/04/2001 – indefinitely	USD 8,221.46	Office	1965
Unit No. 14, Ground Floor, Infinity, Link Road, Oshiwara, Andheri (West), Mumbai	Unique Estate Development Co. Ltd	Egana India Private Limited	72.74	03/09/2006 – 02/09/2009	USD 2,578.05	Shop	2006
Unit No. G-12, 30 A, Sector Inorbit Vashi, Navi Mumbai	Inorbit Malls (India) Pvt. Ltd.	Egana India Private Limited	66.05	18/09/2007 – 17/06/2010	USD 3,641.71	Shop	2007
Unit No. 05-A, Palm Beach Galleria, Sector 19D, Vashi, Navi Mumbai-400703	Lavina Estate Pvt. Ltd.	Egana India Private Limited	15.79	06/06/2007 – 05/06/2010	USD 829.27	Shop	2007
Unit No. F-22 International Business Park, Oberoi Garden City, Off Western Express Highway	Oberoi Mall Pvt. Ltd.	Egana India Private Limited	59.18	28/12/07 – 27/09/2010	USD 2,201.00	Shop	2008
Shop No. 2 B, A. K. Plaza, Veer Savarkar Flyover, S. V. Road, Goregaon (West), Mumbai-400062	Associated Hospitality & Developers Pvt. Ltd.	Egana India Private Limited	157.28	17/07/2007 – 16/07/2010	USD 4,878.05	Shop	2007
Total			<u>810.47</u>				

- We were advised the owner of the property is an independent third party from the Egana Group.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
31. 3 properties rented by EganaGoldpfeil (Switzerland) Limited in Switzerland	As advised by Egana, the property comprises 3 properties with a total gross floor area of approximately 243 sq.m..	The property is leased by the Egana Group as offices & stores.	No commercial value

*Notes:*

1. Pursuant to the tenancy agreements provided by Egana, some details on the property in Switzerland are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
Falkenstrasse 18, CH-2502 Biel	Konrad Mäder, p.A.	EganaGoldpfeil (Switzerland) Limited	140	15/12/2003 – 31/12/2008	CHF 2,575	Office	1906
Falkenstrasse 18, CH-2502 Biel	Konrad Mäder, p.A.	EganaGoldpfeil (Switzerland) Limited	53	15/12/2003 – indefinitely	CHF 740	Office	1906
Falkenstrasse 21a, CH-2502 Biel	S.I. LA Champagne SA,	EganaGoldpfeil (Switzerland) . Limited	50	15/02/2004 – indefinitely	CHF 417	Storage	1900
		Total	<u>243</u>				

2. We were advised the owner of the property is an independent third party from the Egana Group.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
32. 4 properties rented by EganaGoldpfeil Austria GmbH in Austria	As advised by Egana, the property comprises 4 properties with a total gross floor area of approximately 596.69 sq.m and 6 car parking spaces.	The property is leased by the Egana Group as offices, garage and depot.	No commercial value

*Notes:*

1. Pursuant to the tenancy agreements provided by Egana, some details on the property in Austria are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
Hauffgasse 3-5/2.OG, 1110 Wien	BAWAG P.S.K. Immobilien AG	EganaGoldpfeil Austria GmbH	139.69	01/07/2001 – 31/12/2008	EUR 1,353.26	Office	1981
Hauffgasse 3-5/2.OG, 1110 Wien	BAWAG P.S.K. Immobilien AG	EganaGoldpfeil Austria GmbH	6 parking spaces	01/07/2001 – 31/12/2008	EUR 529.63	Garage	1981
Hauffgasse 3-5/2.OG, 1110 Wien	BAWAG P.S.K. Immobilien AG	EganaGoldpfeil Austria GmbH	436	01/07/2001 – 31/12/2008	EUR 4,856.82	Office	1981
Landstr. Hauptstr. 148/2/L1, 1030 Wien	ARWAG Immobilientreuhand GesmbH	EganaGoldpfeil Austria GmbH	21	01/07/2001 – 30/09/2008	EUR 177.34	Depot	1993
Total			<u>596.69</u>				

2. We were advised the owner of the property is an independent third party from the Egana Group.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
33. A property rented by EganaGoldpfeil Italia s.r.l. in Italy	As advised by Egana, the property comprises a property with a total gross floor area of approximately 150 sq.m.	The property is leased by the Egana Group as office.	No commercial value

*Notes:*

1. Pursuant to the tenancy agreement provided by Egana, some details on the property in Italy are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
20122 Milano, Via Albricci 9	BARZA Spa	EganaGoldpfeil Italia s.r.l.	150	01/06/2005 – 31/05/2011	EUR 3,498.00	Office	1953
		Total	<u>150</u>				

2. We were advised the owner of the property is an independent third party from the Egana Group.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
34. 3 properties rented by Lorica Sud s.r.l. in Italy	As advised by Egana, the property comprises 3 properties with a total gross floor area of approximately 16,280 sq.m.	The property is leased by the Egana Group as factory, laboratory and office	No commercial value

*Notes:*

1. Pursuant to the tenancy agreements provided by Egana, some details on the property in Italy are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
Zona Industriale, I-08020 Ottana (NU)	SYNDIAL	Lorica Sud s.r.l.	16,000	Jan 1993 – Dec 2012	EUR 1,966.25	Factory	1973
VIA ALBRICCI, 7, I-20122 Milano	BARZA Spa	Lorica Sud s.r.l.	180	Jan 2005 – Dec 2010	EUR 3,985.43	Offices	1954
Corso Lombardia, 75, I-20122 S. Mauro Torinese	RS AUTOMAZIONE sas	Lorica Sud s.r.l.	100	Feb 2004 – Feb 2010	EUR 864.13	Laboratory and office	1984
		Total	<u>16,280</u>				

2. We were advised the owner of the property is an independent third party from the Egana Group.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
35. A property rented by EganaGoldpfeil Benelux B.V. in the Netherlands	As advised by Egana, the property comprises a property with a total gross floor area of approximately 780 sq.m.	The property is leased by the Egana Group as office, warehouse & carpark.	No commercial value

*Notes:*

- Pursuant to the tenancy agreement provided by Egana, some details on the property in the Netherlands are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
Kieler Bocht 3, 9723 JA, Groningen	Waarborg Vastgoed Fonds NV	EganaGoldpfeil Benelux B.V.	780	01/07/2007 – 01/07/2012	EUR 7,680	Office, warehouse and carpark	2001
Total			<u>780</u>				

- We were advised the owner of the property is an independent third party from the Egana Group.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
36. A property rented by DK Digital GmbH in Germany	As advised by Egana, the property comprises a property with a total gross floor area of approximately 404 sq.m.	The property is leased by the Egana Group as office.	No commercial value

*Notes:*

- Pursuant to the tenancy agreement provided by Egana, some details on the property in Germany are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
Eutelis Platz 2, 40878 Ratingen	IK Immobilienkontor GmbH	DK Digital GmbH	404	01/01/2008 – 31/12/2008	EUR 4,177	Office	2002
		Total	<u>404</u>				

- We were advised the owner of the property is an independent third party from the Egana Group.



No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
37. 2 properties rented by Junghans Uhren GmbH in Germany	As advised by Egana, the property comprises 2 properties with a total gross floor area of approximately 5,310.2 sq.m.	The property is leased by the Egana Group as factory, offices & shop.	No commercial value

*Notes:*

1. Pursuant to the tenancy agreements provided by Egana, some details on the property in Germany are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
Geißhaldenstr. 49 Building 45/46, Schramberg	Gebr. Junghans GmbH	Junghans Uhren GmbH	5,128.2	01/06/2007 – 28/02/2014	EUR 21,108.05	Factory and offices	1919 – 1956
Tösstr. 53, Schramberg	Gebr. Junghans GmbH	Junghans Uhren GmbH	182.0	01/10/1999 – 30/09/2008	EUR 527.80	Shop	1952
		Total	<u>5,310.2</u>				

2. We were advised the owner of the property is an independent third party from the Egana Group.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 <i>HK\$</i>
38. 2 properties rented by Porzellan-Manufaktur Ludwigsburg GmbH in Germany	As advised by Egana, the property comprises 2 properties with a total gross floor area of approximately 1,036.35 sq.m.	The property is leased by the Egana Group as office & factory.	No commercial value

*Notes:*

- Pursuant to the tenancy agreements provided by Egana, some details on the property in Germany are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
Schloss, 71634 Ludwigsburg	Vermögen und Bau Baden-Wurttemberg	Porzellan-Manufaktur Ludwigsburg GmbH	556.35	11/04/1994 – 30/10/2008	EUR 3,983.56	Office	1708
Mühlstraße 39, 71640 Ludwigsburg	Stadt Ludwigsburg	Porzellan-Manufaktur Ludwigsburg GmbH	480.00	14/08/1973 – indefinitely	EUR 2,397.70	Factory	1982
		Total	<u>1,036.35</u>				

- We were advised the owner of the property is an independent third party from the Egana Group.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
39. A property rented by EganaGoldpfeil Europe (Holdings) GmbH in Germany	As advised by Egana, the property comprises a property with a total gross floor area of approximately 15,673 sq.m.	The property is leased by the Egana Group as European Headquarter for sales & administration.	No commercial value

*Notes:*

1. Pursuant to the tenancy agreement provided by Egana, some details on the property in Germany are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
Kaiserstraße 39-49, 63065 Offenbach	Affekta Grundstücksverwal- tungsgesellschaft mbH	EganaGoldpfeil Europe (Holdings) GmbH	15,673	01/01/2004 – 31/12/2018	EUR 179,231	European Headquarter (Sales & Administration)	2003
		Total	<u>15,673</u>				

2. We were advised the owner of the property is an independent third party from the Egana Group.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
40. A property rented by EganaGoldpfeil Deutschland GmbH in Germany	As advised by Egana, the property comprises a property with a total gross floor area of approximately 14,622 sq.m.	The property is leased by the Egana Group as warehouse & factory.	No commercial value

*Notes:*

1. Pursuant to the tenancy agreement provided by Egana, some details on the property in Germany are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
Waldstraße 41; 63128 Dietzenbach	Warehouse Company II GmbH	EganaGoldpfeil Deutschland GmbH	14,622	01/04/2003 – 31/03/2013	EUR 118,581	Warehouse & factory	2003
		Total	<u>14,622</u>				

2. We were advised the owner of the property is an independent third party from the Egana Group.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 <i>HK\$</i>
41. 4 properties rented by EganaGoldpfeil Accessoires GmbH in Germany	As advised by Egana, the property comprises 4 properties with a total gross floor area of approximately 941.16 sq.m.	The property is leased by the Egana Group as shops.	No commercial value

*Notes:*

- Pursuant to the tenancy agreements provided by Egana, some details on the property in Germany are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
Kaiserstraße 2-4, 60311 Frankfurt	Erbengemeinschaft Carl Christian Bickerle	EganaGoldpfeil Accessoires GmbH	445.00	01/07/2001 – 30/06/2009	EUR 14,549.59	Shop	1962
Wilhelmstraße 13, 55246 Wiesbaden	Allianz Lebensversicherungs AG	EganaGoldpfeil Accessoires GmbH	298.46	01/12/2001 – 30/11/2011	EUR 8,244.37	Shop	1955
Königstraße 10, 90402 Nürnberg	Mr. Wolfgang Pfützenreiter & Mr. August Wenz	EganaGoldpfeil Accessoires GmbH	118.00	01/06/1978 – 31/12/2008	EUR 8,564.18	Shop	1923
Kurfürstendamm 216, 10179 Berlin	Becker & Kries Grundstücks GmbH & Co. KG	EganaGoldpfeil Accessoires GmbH	79.70	01/09/1998 – 31/08/2009	EUR 7,746.85	Shop	1958
Total			<u>941.16</u>				

- We were advised the owner of the property is an independent third party from the Egana Group.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
42. 9 properties rented by Sioux GmbH in Germany	As advised by Egana, the property comprises 9 properties with a total gross floor area of approximately 5,864.28 sq.m.	The property is leased by the Egana Group as showroom & warehouse.	No commercial value

## Notes:

1. Pursuant to the tenancy agreements provided by Egana, some details on the property in Germany are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
MOC – Mode Centrum Hamburg, Modering 5, 22457 Hamburg, Haus E, 4. Obergeschoß, Raum 456.2	Luserke Vermögensverwaltung GmbH	Sioux GmbH	63.00	01/11/2004 – 31/10/2008	EUR 495.00	Showroom	1975
SOC – Schuh-Order-Center, Siemensstraße 11, 65205 Wiesbaden-Norderstadt, EG, Raum 3	Grundstücksverwaltung S11	Sioux GmbH	45.50	16/04/1997 – 15/04/2009	EUR 346.13	Showroom	1985
MOC – Mode Centrum München, Sports and Fashion Center, Lilienthal-Allee 40, 80939 München, 2. OG, Raum C 202	MOC-Verwaltungs GmbH & Co. Immobilien KG	Sioux GmbH	76.00	01/01/1997 – 31/03/2009	EUR 1,081.40	Showroom	1993
MMC – Mitteldeutsches Mode Center, Münchener Ring 2, 04435 Schkeuditz, Haus A, 3. OG, Raum 320 a	Globana Center-Management GmbH	Sioux GmbH	33.78	01/08/2000 – 31/07/2010	EUR 524.66	Showroom	1995
SOC – Schuh-Order-Center, Mahdentalstraße 114, 71065 Sindelfingen, Haus 4, 4. OG, Raum 07	Vermietungsgesellschaft Häuser der Konfektion GbR	Sioux GmbH	80.00	01/08/2000 – 30/06/2009	EUR 813.60	Showroom	1975
SOC – House of Sports, An der Pönt 45, 40885 Ratingen-Breitscheidt, Haus A, Raum 006	Bernd Voswinkel GmbH & Co.	Sioux GmbH	126.00	01/06/2001 – 31/05/2011	EUR 1,646.08	Showroom	2000
Trade Mart Hannover, Hessenstraße 1, 30855 Langenhagen, Haus C, 2. OG, Raum 252	TCN Trade Mart Langenhagen GmbH	Sioux GmbH	64.00	01/02/2003 – 31/01/2009	EUR 608.00	Showroom	1999
EKZ – Einkaufszentrum Limbecker Platz Essen, Limbecker Platz 1A, 45127 Essen, 1. OG 1.03,	ECE Projektmanagement GmbH & Co. KG	Sioux GmbH	76.00	28/02/2008 – 31/01/2018	EUR 3,952.00	Store	2008
Süd-West Logistik GmbH & Co. KG, Freiherr-von-Varnbühler-Straße 7, 71282 Hemmingen	Süd-West Logistik GmbH & Co. KG	Sioux GmbH	5,300	01/11/2000 – 31/10/2008	EUR 29,399.25	Warehouse	1971 – 1978
		Total	5,864.28				

2. We were advised the owner of the property is an independent third party from the Egana Group.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 <i>HK\$</i>
43. A property rented by Guthmann + Wittenauer Schmuck GmbH in Germany	As advised by Egana, the property comprises a property with a total gross floor area of approximately 6,900 sq.m.	The property is leased by the Egana Group as factory and office.	No commercial value

*Notes:*

1. Pursuant to the tenancy agreement provided by Egana, some details on the property in Germany are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
Gymnasiumstr. 79 D-75175 Pforzheim	Mayer Immobilien + Anlagen GmbH & Co. KG	Guthmann + Wittenauer Schmuck GmbH	6,900	01/04/2003 – 31/12/2012	EUR 20,000	Factory and office	1952
		Total	<u>6,900</u>				

2. We were advised the owner of the property is an independent third party from the Egana Group.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
44. 38 properties rented by Salamander France S.A.S. in France and Belgium	As advised by Egana, the property comprises 38 properties with a total gross floor area of approximately 7,549.5 sq.m.	The property is leased by the Egana Group as shops, office & warehouse.	No commercial value

*Notes:*

- Pursuant to the tenancy agreements provided by Egana, some details on the property in Belgium and France are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
45 cours de l'Intendance – 33000 Bordeaux, France	Philippe Miler	Salamander France S.A.S.	211	01/01/2005 – 31/12/2013	EUR 6,189	Shop	1840
13 rue Bellivet – 14000 Caen, France	SCI Inter Service Immobilier	Salamander France S.A.S.	182	01/04/2007 – 31/03/2016	EUR 1,723	Shop	1955
15 rue de Cléry – 75002 Paris, France	Foncia Laporte	Salamander France S.A.S.	265	01/04/2004 – 31/03/2013	EUR 5,577	Head Office	1660
C.C. La Toison d'Or, 151 allée des Ducs de, Bourgogne – 21066 DIJON, France	Espace Expansion	Salamander France S.A.S.	120	31/01/2006 – 30/01/2016	EUR 6,672	Shop	1990
16 rue d'Orléans – 44000 Nantes, France	SCI CHRISCA	Salamander France S.A.S.	383	01/01/2006 – 31/12/2014	EUR 4,000	Shop	1820
C.C. Colombia, 40 place du Colombier, 35000 Rennes, France	SEGECE	Salamander France S.A.S.	111	01/04/2004 – 31/03/2016	EUR 3,383	Shop	1986
21 rue du Gros Horloge – 76000 Rouen, France	SCI BOS	Salamander France S.A.S.	137	07/07/2004 – 06/07/2013	EUR 2,181	Shop	1750
27 rue de la Haute Montée – 67000 Strasbourg, France	Immobilière Zimmermann	Salamander France S.A.S.	220	01/02/2007 – 31/01/2016	EUR 6,666	Shop	1875
20 rue Alsace Lorraine – 31000 Toulouse, France	Mme Poutansant	Salamander France S.A.S.	396	01/04/2003 – 30/03/2012	EUR 5,209	Shop	1750
64 rue Nationale – 37000 Tours, France	M. Chantrait	Salamander France S.A.S.	146	12/10/2003 – 12/10/2015	EUR 1,854	Shop	1860
42 avenue du Gal, Leclerc – 75014 Paris, France	SCI Orléans Leclerc	Salamander France S.A.S.	112	01/02/2008 – 31/01/2017	EUR 5,807	Shop	1930



Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
9 rue Jean de Tournes – 69002 Lyon, France	ANF	Salamander France S.A.S.	301	01/10/2005 – 30/09/2014	EUR 4,998	Shop	1920
4 rue Saint-Ferréol – 13001 Marseille, France	Cabinet Lieutaud	Salamander France S.A.S.	192	01/04/2000 – 31/03/2009	EUR 1,912	Shop	1880
4 rue de la Liberté – 06000 Nice, France	Mme Isnard	Salamander France S.A.S.	118	01/06/2005 – 31/05/2014	EUR 1,363	Shop	1915
125 bld Saint-Germain – 75006 Paris, France	Saint-Germain 125	Salamander France S.A.S.	166	01/10/1998 – indefinitely	EUR 4,382	Shop	1870
53 bld Saint-Michel – 75005 Paris, France	Lecasble & Maugée	Salamander France S.A.S.	119	01/07/2002 – 30/06/2011	EUR 3,443	Shop	1920
10 rue Tronchet – 75008 Paris, France	Loiselet & Daigremont	Salamander France S.A.S.	134.5	20/06/2002 – 20/06/2011	EUR 7,642	Shop	1860
C.C. Cité Europe, 1001 bld du Kent, 62231 Coquelles, France	Espace Expansion	Salamander France S.A.S.	166	15/12/2006 – 14/12/2016	EUR 8,153	Shop	1995
C.C. Euralille, 100 centre commercial, 59777 Euralille, France	Espace Expansion	Salamander France S.A.S.	174	03/06/2006 – 02/06/2016	EUR 9,932	Shop	1994
56 rue Faid'herbe – 59000 Lille, France	Patrick Letiers	Salamander France S.A.S.	251	01/02/2002 – 31/03/2011	EUR 3,105	Shop	1920
C.C. Mac Arthur Glen, voie du Bois, 10150 Pont Sainte Marie, France	MG-RB Troyes SAS	Salamander France S.A.S.	174	06/10/2005 – 06/10/2015	EUR 5,831	Shop	1995
C.C. Marques Avenue, 114 bld de Dijon, 10800 Saint Julien Les Villas, France	Concept & Distribution	Salamander France S.A.S.	130	16/03/2005 – 15/02/2015	EUR 2,246	Shop	1993
Quartier Beaugard, La Maladière, 26300 Chateauneuf Sur Isere, France	Mme Bouvat	Salamander France S.A.S.	306 & 700	01/10/1999 – 31/10/2008	EUR 1,677	Shop & Warehouse	1950
C.C. Quai des Marques, A15, 395 avenue du Gal., Leclerc – 95138 Franconville, France	Concept & Distribution	Salamander France S.A.S.	190	12/02/1997 – 12/02/2009	EUR 3,106	Shop	1989
C.C. Marques Avenue, Bât. A3, 60 avenue Gambetta, 26100 Romans Sur Isere, France	Concept & Distribution	Salamander France S.A.S.	190	28/07/1999 – 28/07/2011	EUR 3,206	Shop	1999
7 place Gutenberg – 67000 Strasbourg, France	SAINT CLAIR IMMOBILIER	Salamander France S.A.S.	134	01/12/2004 – 30/11/2013	EUR 4,719	Shop	1750

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
C.C. La Part Dieu, 17 rue du Dr. Bouchut, 69003 Lyon, France	Kleber Conseil & Gestion	Salamander France S.A.S.	155	15/03/2001 – 15/03/2013	EUR 6,943	Shop	1975
C.C. Mac Arthur Glen, 69 mail de Lannoy, 59100 Roubaix, France	MG-RB Troyes SAS	Salamander France S.A.S.	203	24/08/2005 – 24/08/2015	EUR 3,568	Shop	1999
15 rue de Sèvres – 75006 Paris, France	Immovidéo	Salamander France S.A.S.	101	13/05/2003 – 14/02/2012	EUR 2,636	Shop	1790
125 bld Jean-Jaurès – 92100 Boulogne, France	Cabinet Montfort & Bon	Salamander France S.A.S.	132	16/01/2006 – 15/01/2015	EUR 5,113	Shop	1860
34 rue du Président Edouard Herriot – 69001 Lyon, France	INTERIMOB	Salamander France S.A.S.	118	25/07/2006 – 06/01/2011	EUR 1,388	Shop	1850
C.C. Usines Center, ZI Paris Nord II, avenue de la, Plaine – 95500 Gonesse, France	SEGECE	Salamander France S.A.S.	122	01/04/2007 – 31/03/2019	EUR 4,674	Shop	1985
18 rue du Maréchal Foch – 78000 Versailles, France	IMMORENTE	Salamander France S.A.S.	50	01/04/2008 – indefinitely	EUR 1,000	Shop	1720
3 rue du Vieux Marché – 78100 Saint Germain Laye, France	SAS ALHESTIA	Salamander France S.A.S.	245	01/04/2008 – 30/09/2016	EUR 3,750	Shop	1690
12 rue des Louviers – 78100 Saint Germain En Laye, France	Cabinet SENNES	Salamander France S.A.S.	90	01/04/2008 – 28/02/2012	EUR 760	Shop	1820
120 rue Neuve – 1000 Bruxelles, Belgium	M. van den Eynde	Salamander France S.A.S.	186	01/04/2004 – 31/03/2012	EUR 7,032	Shop	1850
7 galerie Louise – 1050 Bruxelles, Belgium	HOGESIM sprl & SA GALERIE LOUISE	Salamander France S.A.S.	245	01/01/2000 – 31/01/2009	EUR 10,457	Shop	1964
Factory Shopping Messancy, 199 route d'Arlon – 6780 Messancy, Belgium	INTERVEST RETAIL SA	Salamander France S.A.S.	174	04/04/2005 – 03/04/2014	EUR 1,498	Shop	2003
		Total					
					<u>7,549.5</u>		

2. We were advised the owner of the property is an independent third party from the Egana Group.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
45. 39 properties rented by Salamander in Austria GmbH in Austria	As advised by Egana, the property comprises 39 properties with a total gross floor area of approximately 14,087 sq.m and 5 car parking spaces.	The property is leased by the Egana Group as shops, office, staff quarter & garage.	No commercial value

## Notes:

- Pursuant to the tenancy agreements provided by Egana, some details on the property in Austria are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
1010 Wien, Kärtnerstr. 9	Bank für Arbeit und Wirtschaft Aktiengesellschaft	Salamander in Austria GmbH	204	01/04/1967 – indefinitely	EUR 18,633.02	Shop	1895
1070 Wien, Mariahilferstr. 32	Cascade Empire Immobilien GmbH	Salamander in Austria GmbH	750	01/01/2002 – indefinitely	EUR 51,701.59	Shop	1911
1120 Wien, Meidlinger Hauptstr. 51-53	Mag.Grabner Elisabeth	Salamander in Austria GmbH	527	01/01/2000 – indefinitely	EUR 5,810.65	Shop	1970
1010 Wien, Hoher Markt 3	Erste Allgemeine Versicherung AG	Salamander in Austria GmbH	120	01/02/1992 – indefinitely	EUR 3,662.29	Shop	1960
1180 Wien, Währingerstr. 108	Neudeck und Tüchler	Salamander in Austria GmbH	265	01/08/1998 – indefinitely	EUR 4,806.69	Shop	1888
1010 Wien, Graben 17	Uniqua Personenversicherung AG	Salamander in Austria GmbH	577	01/01/2002 – indefinitely	EUR 23,124.02	Shop	1905
1010 Wien, Graben 17/LAGER	Uniqua Personenversicherung AG	Salamander in Austria GmbH	50	01/03/2002 – indefinitely	EUR 52.56	Shop	1905
5020 Salzburg, Platzl 1	Dr.Hermine Krivanec und Maria Josefine Masek	Salamander in Austria GmbH	551	01/12/1966 – indefinitely	EUR 9,984.90	Shop	1408
6020 Innsbruck, Maria Theresienstr. 1	Northa Schardinger und Dr. Günter Weis	Salamander in Austria GmbH	438	01/02/1978 – indefinitely	EUR 8,812.28	Shop	1737
8010 Graz, Herrengasse 7	Erste Allgemeine Versicherung AG	Salamander in Austria GmbH	693	01/07/1993 – indefinitely	EUR 11,867.24	Shop	1632
2334 Vösendorf, SCS Top 100	Shopping Center Planungs-Entwicklungsgesellschaft mbH & Werbeberatung KG	Salamander in Austria GmbH	297	01/01/1998 – 31/12/2017	EUR 7,398.70	Shop	1976

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
2334 Vösendorf, SCS Top 100/LAGER	Shopping Center Planungs-Entwicklungsgesellschaft mbH & Werbeberatung KG	Salamander in Austria GmbH	88	01/01/1998 – 31/12/2017	EUR 671.80	Shop	1976
2700 Wr. Neustadt, Herzog Leopoldstr.26	Dr. Schober GesmbH	Salamander in Austria GmbH	449	01/07/1994 – indefinitely	EUR 5,600.00	Shop	1700
2334 Vösendorf, SCS Top 88	Shopping Center Planungs-Entwicklungsgesellschaft mbH & Werbeberatung KG	Salamander in Austria GmbH	123	01/01/1998 – 31/12/2017	EUR 3,236.70	Shop	1976
1210 Wien, Donaustadtstr.1 DZ Top 62	DZ-Donauzentrum Besitz -und Vermietungs-Aktiengesellschaft	Salamander in Austria GmbH	250	01/01/2005 – 31/12/2011	EUR 6,900.60	Shop	1975
8025 Graz, Lazarettgürtel 55	Citypark Werbe-u. Verwaltungsges mbH	Salamander in Austria GmbH	149	01/10/2003 – 30/09/2013	EUR 5,533.80	Shop	2003
1100 Wien, Favoritenstr. 87	FRAPAG Liegenschaft AG	Salamander in Austria GmbH	500	01/10/1978 – indefinitely	EUR 7,876.03	Shop	1865
1060 Wien, Mariahilferstr. 109	Öst.Bau-u.Grundstück-GesmbH	Salamander in Austria GmbH	555	01/01/1980 – indefinitely	EUR 23,753.38	Shop	1901
1010 Wien, Rotenturmstr. 27	KEB Immobilienverwaltung GmbH	Salamander in Austria GmbH	263	01/10/1997 – indefinitely	EUR 5,626.93	Shop	1693
1010 Wien, Kärntnerstr. 5	Bundeskammer der Architekten und Ingenieurkonsulenten	Salamander in Austria GmbH	1,317	01/07/1995 – indefinitely	EUR 80,000.00	Shop	1882
1060 Wien, Mariahilferstr. 33	Dafner Schredtschen Stiftung	Salamander in Austria GmbH	205	01/02/1982 – indefinitely	EUR 1,060.24	Shop	1908
2500 Baden, Hauptplatz 6	Stadtgemeinde Baden	Salamander in Austria GmbH	304	01/12/2002 – indefinitely	EUR 4,500.00	Shop	1890
7400 Oberwart, Hauptplatz 8	Beatrix Andrea Pratscher	Salamander in Austria GmbH	487	01/07/1982 – indefinitely	EUR 3,000.00	Shop	1965
5020 Salzburg, Getreidegasse 42	Ingeborg Borger und Manfred Stainer und Dipl.-Ing. Thomas Stainer	Salamander in Austria GmbH	164	01/06/1998 – indefinitely	EUR 8,402.60	Shop	1450
3100 St.Pölten, Kremser Gasse 29	Erika Deuwagner	Salamander in Austria GmbH	183	01/07/2003 – indefinitely	EUR 4,664.87	Shop	1808
1010 Wien, Bauernmarkt 1	Lenikus GmbH	Salamander in Austria GmbH	150	01/06/2001 – indefinitely	EUR 5,240.90	Shop	1748

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
9020 Klagenfurt, Alter Platz 4	Christine Vallon	Salamander in Austria GmbH	184	01/09/1983 – indefinitely	EUR 4,121.07	Shop	1468
8230 Hartberg, Kirchengasse 5	Paul Klingenstein	Salamander in Austria GmbH	275	01/01/2000 – 01/01/2010	EUR 1,423.75	Shop	1899
City Arkaden Klagenfurt	EKZ Eins Europa Bau-und Projektmanagement GmbH	Salamander in Austria GmbH	241	15/04/2005 – 30/09/2016	EUR 7,448.96	Shop	2006
1100 Wien, Favoritenstrasse 122	Justin & Mitbesitzer	Salamander in Austria GmbH	549	01/01/1984 – indefinitely	EUR 13,747.00	Shop	1873
1070 Wien, Mariahilferstrasse 120	Bawag P.S.K. Leasing GmbH & CO OHG	Salamander in Austria GmbH	656	15/07/2003 – indefinitely	EUR 24,017.19	Shop	1916
9500 Villach, Moritschstrasse 1	Alpenlandschuhe Strußnig & Berger KG	Salamander in Austria GmbH	514	01/01/1985 – indefinitely	EUR 8,986.00	Shop	1400
9500 Villach, Gerbergasse 1	Anna Hauenschild und Helga Gusbeth	Salamander in Austria GmbH	316	01/01/1982 – indefinitely	EUR 2,016.67	Shop	1915
4061 Pasching, PluskaufstraBe 7	Plus City Betriebsgesellschaft mbH	Salamander in Austria GmbH	352	06/03/2006 – indefinitely	EUR 15,786.85	Shop	1989
2544 Leobersdorf, Leovillestrasse 4	European Outlet GmbH & Co Leoville Betriebs KEG	Salamander in Austria GmbH	190	10/05/2005 – 10/05/2015	EUR 7,244.00	Shop	2005
7111 Parndorf, McArthur Clen/ Unit 211	MGE-RB Parndorf Projektentwicklung GesmbH	Salamander in Austria GmbH	172	27/09/2005 – 27/09/2015	EUR 2,102.78	Shop	2005
1120 Wien, Zeleborgasse 21/ GARAGE	Mag.Grabner Elisabeth	Salamander in Austria GmbH	5 parking spaces	01/11/2001 – indefinitely	EUR 693.06	Garage	1967
1120 Wien, Schönbrunner Allee	Dr. Gerhard Stingl	Salamander in Austria GmbH	179	01/10/1999 – 31/05/2008 and terminated after the end of lease term	EUR 790.76	Staff quarter	2003
1120 Wien, Zeleborgasse 21	Mag.Grabner Elisabeth	Salamander in Austria GmbH	800	01/01/2000 – indefinitely	EUR 5,333.02	Office	1967
		Total	<u>14,087</u>				

2. We were advised the owner of the property is an independent third party from the Egana Group.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
46. 12 properties rented by Salamander CR spol. s. r.o. in Czech Republic	As advised by Egana, the property comprises 12 properties with a total gross floor area of approximately 2,732.04 sq.m.	The property is leased by the Egana Group as shops & office.	No commercial value

## Notes:

1. Pursuant to the tenancy agreements provided by Egana, some details on the property in Czech Republic are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
Na Prikope 16, Praha 1	Vyssi odborná škola Fr.Krizika	Salamander CR spol. s. r.o.	100	07/02/2000 – indefinitely	EUR 6,887	Shop	1916
Zitna 23, Praha 1	Mestska část	Salamander CR spol. s. r.o.	310	01/08/2002 – 31/07/2012	EUR 4,171	Shop	1920
Masarykova 9, Bmo	Ing.Miroslav Lekes	Salamander CR spol. s. r.o.	461	30/06/1998 – indefinitely	EUR 6,089	Shop	1935
Na Prikope 23, Praha 1	Linea Ubok	Salamander CR spol. s. r.o.	290	01/11/1999 – 31/10/2009	EUR 16,970	Shop	1909
Stara Louka 4, Karlovy Vary	Lazenska společnost	Salamander CR spol. s. r.o.	180	01/07/2007 – 31/12/2016	EUR 8,511	Shop	1896
KOC Novy Smichov, Plzenska 8, Praha 5	Delcis CR	Salamander CR spol. s. r.o.	130	15/11/2001 – indefinitely	EUR 4,448	Shop	2001
Chlumecka 7655/6, Praha 9	Centrum Cemy Most	Salamander CR spol. s. r.o.	106	21/07/2003 – 20/07/2008	EUR 2,850	Shop	1997
NC Galerie Vankovka, Ve Vankovce 1, Bmo	EKZ Tschechien	Salamander CR spol. s. r.o.	175	16/03/2005 – 15/03/2015	EUR 4,623	Shop	2005
Vaclavske nam.12, Praha 1	Mestska část	Salamander CR spol. s. r.o.	378.80	01/11/2004 – 31/10/2014	EUR 24,516	Shop	1912
Narodni 41/973, Praha 1	Areal CZ	Salamander CR spol. s. r.o.	226	01/01/2005 – 31/12/2011	EUR 4,383	Head Office	1993
Roztylska 2321/19, Praha 4 Chodov	Centrum Praha Jih	Salamander CR spol. s. r.o.	177	01/11/2005 – 31/10/2015	EUR 5,605	Shop	2005
Prumyslova 440, Praha 10	Euro Mall Sterboholy	Salamander CR spol. s. r.o.	198.24	15/11/2007 – 14/11/2017	EUR 3,965	Shop	2007
		Total	<u>2,732.04</u>				

2. We were advised the owner of the property is an independent third party from the Egana Group.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
47. 2 properties rented by Salamander CR spol. s. r.o. in Slowakei	As advised by Egana, the property comprises 2 properties with a total gross floor area of approximately 319.53 sq.m.	The property is leased by the Egana Group as shops.	No commercial value

*Notes:*

- Pursuant to the tenancy agreements provided by Egana, some details on the property in Bratislava Slowakei are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
Ivanska cesta 16, Bratislava Slowakei	Inter Ikea Centre Slovensko	Salamander CR spol. s. r.o.	152.90	31/08/2006 – 30/08/2016	EUR 5,564	Shop	2000
Einsteinova 18, Bratislava Slowakei	AUPARK	Salamander CR spol. s. r.o.	166.63	22/08/2007 – 21/08/2017	EUR 7,610	Shop	2002
		Total	<u>319.53</u>				

- We were advised the owner of the property is an independent third party from the Egana Group.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
48. 25 properties rented by Salamander in Russland GmbH in Russia	As advised by Egana, the property comprises 25 properties with a total gross floor area of approximately 5,231.60 sq.m.	The property is leased by the Egana Group as shops, warehouses & office.	No commercial value

*Notes:*

1. Pursuant to the tenancy agreements provided by Egana, some details on the property in Russia are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
109012, Moscow, Red sq, 3	OA0 Torgovy Dom GUM	Salamander in Russland GmbH	228.7	01/03/2008 – 15/01/2009	RUB 1,561,999.77	Shop	Before 1958
129164, Moscow, Prospekt Mira,122	LLC IMMION GmbH	Salamander in Russland GmbH	475.8	01/11/2005 – 28/02/2011	RUB 1,222,978.55	Shop	Before 1988
119334, Moscow, Leninskiy, 37-A	LLC Shillinger Vika	Salamander in Russland GmbH	286.3	30/09/2002 – 01/10/2012	RUB 308,510.98	Shop	Before 1988
119334, Moscow, Leninskiy, 37-A	LLC Shillinger Vika	Salamander in Russland GmbH	134.1	01/01/2001 – 01/07/2011	RUB 190,331.83	Shop	Before 1988
129164, Moscow, Prospekt Mira, 78	LLC Krestovskiy magazin	Salamander in Russland GmbH	173.3	09/06/2005 – 01/06/2010	RUB 315,945.00	Shop	Before 1988
125167, Moscow, Leningradsky Prosp. 62-A	LLC Monitor Tame	Salamander in Russland GmbH	124.1	01/08/2006 – 31/07/2009	RUB 521,220.00	Shop	2003
115114, Moscow, Valovaya str. 6	IP Kedrov UB	Salamander in Russland GmbH	275.5	01/06/2008 – 30/04/2009	RUB 1,065,000.00	Shop	Before 1988
443099, Samara, Leningradskaya str. 39	LLC Dom	Salamander in Russland GmbH	301.9	01/06/2004 – 31/05/2009	RUB 245,168.00	Shop	Before 1988
630078, Novosibirsk, Karla Marksa sq., 2	LLC Tursib-B	Salamander in Russland GmbH	258	03/09/2005 – 02/09/2010	RUB 456,660.00	Shop	2004
630082, Novosibirsk, Dusya Kovalchuk str. 179/2	LLC Kalina	Salamander in Russland GmbH	151.6	21/12/2006 – 20/12/2011	RUB 424,480.00	Shop	2006
109052, Moscow, Avtomobilny pr, 10	IP Shikalev MA	Salamander in Russland GmbH	708.6	01/06/2008 – 30/04/2009	RUB 228,920.00	Warehouse	Before 2003
115114, Moscow, Kogevnicheskaya st. 7/str.1	ZAO Parigskaya Kommuna	Salamander in Russland GmbH	345.3	31/03/2001 – 30/03/2013	RUB 129,487.50	Office	Before 1988



Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
141400, Moscow region, Himki, Leningradsкая str. 1	LLC IKEA MOS (Retail and Property)	Salamander in Russland GmbH	222.46	01/11/2007 – 31/10/2009	RUB 604,850.20	Shop	2006
443011, Samara, Novo Sadovaya str. 160M	LLC IKEA MOS (Retail and Property)	Salamander in Russland GmbH	130.70	01/01/2007 – 30/04/2011	RUB 261,382.57	Shop	2006
620043, Ekaterinburg, Otradnaya str. 129	LLC IKEA MOS (Retail and Property)	Salamander in Russland GmbH	159.90	03/05/2006 – 31/12/2011	RUB 393,998.68	Shop	2006
620043, Ekaterinburg, Otradnaya str. 129	LLC IKEA MOS (Retail and Property)	Salamander in Russland GmbH	28	01/08/2007 – 31/07/2008	RUB 24,780.00	Warehouse	2006
620014, Ekaterinburg, Sakko and Vantcetti str., 62	TSMO-2	Salamander in Russland GmbH	192.50	17/07/2006 – 31/07/2011	RUB 354,000.00	Shop	2006
Samarskaya reg., Krasnoglinsky reg., v. Krasny pahar, 24km M5	LLC IKEA MOS (Retail and Property)	Salamander in Russland GmbH	127.58	13/09/2006 – 31/12/2012	RUB 395,179.05	Shop	2008
630024, Novosibirsk, Vatutina str. 107	LLC IKEA MOS (Retail and Property)	Salamander in Russland GmbH	129.80	13/09/2006 – 31/12/2012	RUB 402,055.50	Shop	2008
346720, Rostov region, Aksay, Novoherkasskoe shosse, 33	LLC IKEA MOS (Retail and Property)	Salamander in Russland GmbH	127.74	13/09/2006 – 31/12/2012	RUB 395,674.65	Shop	2008
445004, Tolyatti, Samarskaya reg., Avtosavodskoe shosse, 6	MD-Tolyatty	Salamander in Russland GmbH	153.1	06/06/2007 – 05/06/2012	RUB 332,800.05	Shop	2007
140054, Moscow region, Luberetski reg., Kotelniki, 1-st Pokrovski pr. 5	LLC MEGA Belaya Dacha	Salamander in Russland GmbH	112.36	13/08/2007 – 31/12/2012	RUB 486,144.27	Shop	2007
607685, Niginy Novgorod region, Kstovsky reg., Fediaykovo v	LLC IKEA MOS (Retail and Property)	Salamander in Russland GmbH	119.20	13/08/2007 – 31/12/2012	RUB 369,222.00	Shop	2007
Krasnodar, Republic of Adygeya Takhtamukaisky region	LLC IKEA MOS (Retail and Property)	Salamander in Russland GmbH	123	13/08/2007 – 31/12/2012	RUB 380,992.50	Shop	2008
454000 Chelyabinsk, Tzvinglinga str.25	LLC Trast Company Molniya Invest	Salamander in Russland GmbH	142.06	14/03/2008 – 14/03/2013	RUB 381,792.51	Shop	2008
		Total	<u>5,231.60</u>				

2. We were advised the owner of the property is an independent third party from the Egana Group.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
49. 21 properties rented by Salamander Hungaria Kft. in Hungary	As advised by Egana, the property comprises 21 properties with a total gross floor area of approximately 6,669.26 sq.m.	The property is leased by the Egana Group as shops & office.	No commercial value

## Notes:

- Pursuant to the tenancy agreements provided by Egana, some details on the property in Hungary are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
Budapest VI.Váci út 1-3	West End Zrt.	Salamander Hungaria Kft.	301	13/11/1999 – 12/11/2009	EUR 12,828.62	Shop	1999
Szeged, Kárász u. 16	Ingatlankezelő és Vagyongazdálkodó Zrt Szeged	Salamander Hungaria Kft.	180	01/03/2000 – indefinitely	EUR 1,275.49	Shop	1928
Budapest X.Őrs vezér tere 25	ECE Projektmanagement Budapest Kft.	Salamander Hungaria Kft.	407.27	06/03/2002 – 31/03/2012	EUR 9,982.19	Shop	2002
Pécs Árkád Bajcsy-Zs 11	Einkaufs-Center Arkaden Pécs KG Magyarország Fióktelep	Salamander Hungaria Kft.	364.84	17/03/2004 – 31/03/2014	EUR 8,274.57	Shop	2004
Győr Árkád Budai út 1	Einkaufs-Center Győr GbmH & Co KG Magyarország Fióktelep	Salamander Hungaria Kft.	177	20/10/2006 – 31/12/2016	EUR 4,409.07	Shop	2006
Budapest V.Váci u 28	ORO Invest Kft	Salamander Hungaria Kft.	227	08/08/2003 – 08/08/2008	EUR 2,675.00	Shop	1918
Budapest Arena Plaza VIII. Kerepesi út 9	Kerepesi 3 Áruház Ingatlanfejlesztő Kft.	Salamander Hungaria Kft.	386.12	31/10/2007 – 30/10/2012	EUR 15,587.66	Shop	2007
Budapest V. Ferenciek tere 5	Belváros-Lipótváros Vagyonkezelő Zrt	Salamander Hungaria Kft.	176.5	01/12/1999 – indefinitely	EUR 1,588.76	Shop	1908
Budapest V.Váci u.8	ORO Invest Kft	Salamander Hungaria Kft.	96	08/08/2003 – 08/08/2008	EUR 1,250.00	Shop	1918
Budapest VI.Teréz krt 6	Terézvárosi Vagyonkezelő Nonprofit Zrt.	Salamander Hungaria Kft.	335	01/09/1989 – indefinitely	EUR 1,798.05	Shop	1938
Budapest V.Váci u.23	ORO Invest Kft	Salamander Hungaria Kft.	87	08/08/2003 – 08/08/2008	EUR 1,062.50	Shop	1928

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
Budapest VI.Váci út 1-3	West End Zrt.	Salamander Hungaria Kft.	491	13/11/1999 – 12/11/2009	EUR 20,926.42	Shop	1999
Budapest X.Őrs vezér tere 25	ECE Projektmanagement Budapest Kft.	Salamander Hungaria Kft.	348.13	06/03/2002 – 06/03/2012	EUR 5,302.02	Shop	2002
Budapest V.Petőfi S.u.14	ORO Invest Kft	Salamander Hungaria Kft.	262	08/08/2003 – 08/08/2008	EUR 3,200	Shop	1928
Budapest V.Szt.István krt.23	Belváros-Lipótváros Vagyongazdálkodó Zrt	Salamander Hungaria Kft.	552	01/12/1999 – indefinitely	EUR 3,084.93	Shop	1928
Pécs Árkád Bajcsy-Zy 11	Einkaufs-Center Arkaden Pécs KG Magyarország Fióktelep	Salamander Hungaria Kft.	291	17/03/2004 – 17/03/2014	EUR 4,577.43	Shop	2004
Budapest II.Margit krt.28-32	BUDÉP Budai Épületfenntartó Kft	Salamander Hungaria Kft.	232.3	01/04/2005 – indefinitely	EUR 1,411.43	Shop	1958
Budapest XII. Nyugati tér 4	Angyalföld-Ujlipótváros-Vizafogó Vagyongazdálkodó Zrt.	Salamander Hungaria Kft.	603	01/05/2004 – 01/05/2009	EUR 3,476.12	Shop	1948
Budapest V. Múzeum krt.21	Belváros-Lipótváros Vagyongazdálkodó Zrt	Salamander Hungaria Kft.	231	1959 – indefinitely	EUR 242.67	Shop	1908
Biatorbágy, Premier Outlets	Premier Outlet Center Kft	Salamander Hungaria Kft.	184.1	01/12/2004 – 31/12/2014	EUR 4,248.29	Shop	2004
Budapest X.Őrs v tere 25	ECE Projektmanagement Budapest Kft.	Salamander Hungaria Kft.	737	08/07/2002 – 30/09/2012	EUR 8,261.77	Office	2002
Total			6,669.26				

2. We were advised the owner of the property is an independent third party from the Egana Group.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 <i>HK\$</i>
50. 12 properties rented by Salamander Polska Sp.z.o.o. in Poland	As advised by Egana, the property comprises 12 properties with a total gross floor area of approximately 2,155.87 sq.m.	The property is leased by the Egana Group as shops & office.	No commercial value

*Notes:*

1. Pursuant to the tenancy agreements provided by Egana, some details on the property in Poland are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
00-372 Warszawa, Al. Jerozolimskie 42	Zakład Gospodarowania Nieruchomościami	Salamander Polska Sp.z.o.o.	160.96	01/10/1994 – indefinitely	EUR 4,674.63	Shop	About 1948
90-425 Łódź, ul.Piotrkowska 111	Stojedenaście S.C.	Salamander Polska Sp.z.o.o.	152	01/09/1993 – indefinitely	EUR 2,590.61	Shop	1900
04-175 Warszawa, ul.Ostrobramska 75C	Savana Investments Sp. z o.o.	Salamander Polska Sp.z.o.o.	133	27/04/2001 – 30/06/2011	EUR 4,446.68	Shop	1996
00-372 Warszawa, Foksal 18	Przedsiębiorstwo Handlu Chemikaliami “Chemia”	Salamander Polska Sp.z.o.o.	569	18/08/2007 – 17/08/2008	EUR 17,076.50	Shop and office	About 1948
02-675 Warszawa, ul.Wołoska 12	Rodamco CHI Sp. z o.o.	Salamander Polska Sp. z o.o.	127	06/09/2000 – 05/09/2010	EUR 5,797.25	Shop	2000
90-307 Łódź, Al..Piłsudskiego 15/23	Galeria Lodzka Lodz Shopinvest KG Spółka komandytowa	Salamander Polska Sp.z.o.o.	105.94	10/10/2002 – 09/10/2012	EUR 4,060.04	Shop	2002
50-159 Wrocław, Pl.Dominikański 3	Ilwro Joint Venture Sp. z o.o.	Salamander Polska Sp.z.o.o.	187.67	03/08/2001 – 02/08/2011	EUR 6,228.01	Shop	2001
81-358 Gdynia, ul.Starowiejska 7	Łucjan Hundsdorff, Zenon Hundsdorff, Ewa Hundsdorff-Dymecka, Roman Hundsdorff, Anna Sakowska, Leszek Hundsdorff	Salamander Polska Sp.z.o.o.	287.2	01/07/1991 – indefinitely	EUR 3,003.83	Shop	1934
05-500 Piaseczno, ul.Puławska 42E	The Outlet Company Warsaw Sp. z o.o.	Salamander Polska Sp.z.o.o.	170	16/01/2006 – 31/03/2015	EUR 5,401.88	Shop	2006

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
81-525 Gdynia, Al. Zwycięstwa 256	Paige Investments Sp. z o.o.	Salamander Polska Sp.z.o.o.	74	18/05/2005 – 30/06/2010	EUR 3,897.54	Shop	1996
01-042 Warszawa, 58/72 ul.Okopowa	Klif Warszawa Sp. z o.o.	Salamander Polska Sp.z.o.o.	96.6	23/02/2006 – 07/03/2011	EUR 4,563.96	Shop	1999
53-333 Wrocław, ul.Powstańców Śl.2/4	Arkady Wrocławskie SA	Salamander Polska Sp.z.o.o.	92.5	27/04/2007 – 27/04/2012	EUR 4,698.43	Shop	2007
		Total	<u>2,155.87</u>				

2. We were advised the owner of the property is an independent third party from the Egana Group.

No. Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2008 HK\$
51. 55 properties rented by Salamander GmbH in Germany and Netherlands	As advised by the Company, the property comprises 55 properties with a total gross floor area of approximately 46,067 sq.m.	The property is leased by the Egana Group as headquarter, shops & factory outlets.	No commercial value

*Notes:*

- Pursuant to the tenancy agreements provided by Egana, some details on the property in Germany and Netherlands are summarized as below:

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
Stammheimer Str. 10, Kornwestheim, 70806, Germany	EnBW Beteiligungen AG	Salamander GmbH	2,513	Until 30/06/2008	EUR 14,630	Headquarter	1896
Fuggerstraße 2, Augsburg, 86150, Germany	Hans-Peter Lackner	Salamander GmbH	1,127	Until 28/02/2014	EUR 15,165	Shop	1900
Reichenstraße 10, Bautzen, 02625, Germany	Pech's Erben vertr. Christian Pech	Salamander GmbH	269	Until 30/04/2011	EUR 2,686	Shop	1850
Maximilianstraße 20, Bayreuth, 95444, Germany	Claus Thelemann	Salamander GmbH	628	Until 31/12/2011	EUR 5,500	Shop	1900
Schloßstraße 21, Berlin (Steglitz), 12163, Germany	Walk 1 Sarl.	Salamander GmbH	715	Until 30/09/2018	EUR 22,241	Shop	1985
Sögestraße 23, Bremen, 28195, Germany	Walk 1 Sarl.	Salamander GmbH	1,115	Until 30/09/2018	EUR 20,099	Shop	1950
Westenhellweg 23, Dortmund, 44137, Germany	Grundstückgemeinschaft Köhler	Salamander GmbH	1,179	Until 30/09/2016	EUR 39,700	Shop	1950
Prager Str. 7, Dresden, 01069, Germany	Union Investment Real Estate AG	Salamander GmbH	741	Until 28/02/2014	EUR 20,000	Shop	1970
Schadowstraße 20, Düsseldorf, 40212, Germany	EPI Walkabout Düsseldorf Sarl. & Co.KG	Salamander GmbH	784	Until 30/09/2008	EUR 16,177	Shop	1950
EKZ Anger 1, Anger 1-3, Erfurt, 99084, Germany	Karstadt Warenhaus GmbH	Salamander GmbH	354	Until 30/09/2010	EUR 10,576	Shop	2001
Zeil 113, Frankfurt, 60313, Germany	Heinrich Tägtmeyer	Salamander GmbH	704	Until 31/12/2015	EUR 48,000	Shop	1950
Kaiser-Joseph-Straße 248, Freiburg, 79098, Germany	Walk 1 Sarl.	Salamander GmbH	1,094	Until 30/09/2018	EUR 12,903	Shop	1960

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
Marienstraße 1, Hagen, 58095, Germany	Walk 1 Sarl.	Salamander GmbH	530	Until 30/09/2018	EUR 9,914	Shop	1960
Auf dem Königslande 20, Hamburg, 22041, Germany	ideGrundstücksverwaltung GmbH+co.KG	Salamander GmbH	604	Until 31/12/2008	EUR 2,434	Factory outlet	1960
Jungfernstieg 14, Hamburg, 20354, Germany	Epi Walkabout Hamburg Sarl. & Co.KG	Salamander GmbH	1,060	Until 30/09/2013	EUR 25,113	Shop	1950
Kleine Rosenstr. 14 Ecke Mönckebergstr., Hamburg, 20095, Germany	Bencom srl.	Salamander GmbH	873	Until 28/02/2016	EUR 45,000	Shop	2005
Bäckerstraße 10/11, Hameln, 31785, Germany	Lemenseick GbR	Salamander GmbH	556	Until 28/02/2010	EUR 14,381	Shop	1900
Richard-Matthaei-Platz 1, Hamm, 59065, Germany	Allee-Center Hamm KG	Salamander GmbH	457	Until 31/12/2015	EUR 10,253	Shop	1985
Große Packhofstraße 12-13, Hannover, 30159, Germany	EPI Walkabout Hannover Sarl. & Co.KG	Salamander GmbH	1,779	Until 30/06/2013	EUR 44,961	Shop	1955
Ludwigstraße 5, Ingolstadt, 85049, Germany	Walk 1 Sarl.	Salamander GmbH	958	Until 30/09/2018	EUR 14,867	Shop	1985
EKZ Altwarmbüchen Siemensstr. 9, Isernhagen, 30916, Germany	Friedhelm, Volker + Heinz Hennies	Salamander GmbH	1,613	Until 31/12/2013	EUR 8,075	Factory outlet	1975
City-Karree, Jena, 07743, Germany	Bayernfonds Immobilien City Investition Objekte Efurt und Jena KG	Salamander GmbH	523	Until 31/12/2009	EUR 9,775	Shop	1999
Ettlinger-Tor-Platz 1, Karlsruhe, 76133, Germany	Ettlinger Tor Karlsruhe KG	Salamander GmbH	610	Until 30/09/2015	EUR 22,027	Shop	2005
Kaiserstraße 169-171, Karlsruhe, 76133, Germany	Salamander Schuh GmbH	Salamander GmbH	1,349	Until 30/04/2011	EUR 33,776	Shop	1950
Löhrstraße 43, Koblenz, 56068, Germany	Katarina Schäfer/Salamander Schuh GmbH	Salamander GmbH	758	Until 31/03/2009	EUR 20,078	Shop	1950
Hohe Straße 71, Köln, 50667, Germany	EPI Walkabout Köln Sarl. & Co.KG	Salamander GmbH	1,011	Until 30/09/2008	EUR 16,941	Shop	1950
Neumarktgalerie/Zeppelinstr. 1, Köln, 50667, Germany	Neumarkt-Galerie Immobilienges. GmbH	Salamander GmbH	780	Until 27/08/2008	EUR 24,242	Shop	1900
Stammheimer Str. 10, Kornwestheim, 70806, Germany	EnBW Beteiligungen AG	Salamander GmbH	3,437	Until 30/09/2013	EUR 27,500	Factory outlet	2001

Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
Grimmaische Str. 9-11, Leipzig, 04109, Germany	Alte Leipziger Lebensversicherung a.G.	Salamander GmbH	1,123	Until 30/06/2015	EUR 34,500	Shop	1950
Breite Straße 93, Lubeck, 23552, Germany	Manfred Blank	Salamander GmbH	765	Until 31/12/2008	EUR 13,000	Shop	1950
Kirchstraße 3, Ludwigsburg, 71634, Germany	Schuh Braun + Eichert GmbH & Co.KG	Salamander GmbH	966	Until 30/06/2011	EUR 8,000	Shop	1930
Breuningerland Heinkelstraße 1-11, Ludwigsburg-Tammerfeld, 71634, Germany	E. Breninger GmbH & Co.	Salamander GmbH	520	Until 30/06/2012	EUR 20,256	Shop	1980
Große Bäckerstraße 22, Lüneburg, 21335, Germany	Brunsmeyer Erbgemeinschaft GmbH & CoKG	Salamander GmbH	616	Until 31/03/2010	EUR 9,332	Shop	1900
Am Markt 2-6, Mainz, 55116, Germany	Bischöfliche Dotation Mainz	Salamander GmbH	775	Until 31/12/2010	EUR 13,039	Shop	1950
O 6.3, Mannheim O 6, 68161, Germany	Engelhorn KGaA	Salamander GmbH	521	Until 31/08/2012	EUR 18,166	Shop	1950
Kaufingerstr. 15, München, 80331, Germany	Bencom srl.	Salamander GmbH	1,335	Until 28/02/2016	EUR 118,867	Shop	2005
Olympia EKZ, Riesstr. 59, München-Moosach, 80993, Germany	Deutsche Grundbesitz-Anlagenges. Dr. Dühl & Co.	Salamander GmbH	409	Until 31/12/2016	EUR 20,415	Shop	1972
Stummplatz 1 (Saarpark-Center), Neunkirchen, 66538, Germany	Immobilien-Kommanditges. Kullmann & Co., Einkaufscenter Neunkirchen	Salamander GmbH	291	Until 30/09/2009	EUR 10,781	Shop	1998
Karolinenstraße 23, Nürnberg, 90402, Germany	EPI Walkabout Nürnberg Sarl. & Co.KG	Salamander GmbH	1,335	Until 30/09/2018	EUR 33,062	Shop	1997
Schüttingstraße 17-19, Oldenburg, 26122, Germany	Ruth Kriss und Gisela Jungblut	Salamander GmbH	530	Until 31/12/2011	EUR 7,000	Shop	1900
Westl.-Karl-Friedrich-Straße 43, Pforzheim, 75172, Germany	Linda Brenner	Salamander GmbH	812	Until 30/06/2010	EUR 12,000	Shop	1950
Neupfarrplatz, Regensburg, 93047, Germany	Andreas Insinger	Salamander GmbH	649	Until 30/11/2009	EUR 8,053	Shop	1850



Property Address	Owner	Tenant	Gross floor area/sq.m. (Approximately)	Lease term	Monthly rental	Use	Completion Year
Stadsweide 60, Roermond (NL), 06041, The Netherlands	Designer Outlet Centre Roermond B.V.	Salamander GmbH	186	Until 06/04/2021	EUR 6,461	Factory outlet	2003
Bahnhofstr. 79, Saarbrücken, 66111, Germany	Esprit Retail B.V. & Co.KG	Salamander GmbH	589	Until 30/07/2014	EUR 21,600	Shop	1950
Reiferbahn 2-6 (Schloßpark-Center), Schwerin, 19053, Germany	Schloßpark-Center Schwerin Wieland KG	Salamander GmbH	407	Until 31/07/2008	EUR 12,411	Shop	1998
Am Bahnhof 40 (City-Galerie), Siegen, 57072, Germany	City-Galerie Siegen Wieland KG	Salamander GmbH	353	Until 30/09/2008	EUR 9,831	Shop	1998
Breuningerland Tilsiter Straße 15, Sindelfingen, x 71065, Germany	E.Breuning GmbH & Co.	Salamander GmbH	433	Until 30/09/2011	EUR 19,589	Shop	1995
Königstraße 1 b, Stuttgart, 70173, Germany	Schlossgartenbau-AG	Salamander GmbH	728	Until 31/12/2011	EUR 42,000	Shop	1950
Königstraße 45, Stuttgart, 70173, Germany	STINAG K645 Grundbesitz GmbH & Co.KG	Salamander GmbH	809	Until 30/09/2014	EUR 35,000	Shop	1960
Steinweg 3, Suhl, 98527, Germany	Lothar Kessler	Salamander GmbH	336	Until 31/08/2011	EUR 4,500	Shop	1910
SIP GmbH Jakob-Sigle-Straße 58, Türkheim, 86842, Germany	Salamander Industrie Produkte GmbH	Salamander GmbH	181	Until 31/01/2009	EUR 1,383	Factory outlet	1920
Am Markt 1, Wittenberg, 06886, Germany	Lutherstadt Wittenberg	Salamander GmbH	580	Until 31/12/2010	EUR 5,500	Shop	1850
Wall 24 a, Wuppertal-Elberfeld, 42103, Germany	Salamander Schuh GmbH	Salamander GmbH	927	Until 30/09/2013	EUR 14,350	Shop	1965
Schönbornstraße 2, Würzburg, 97070, Germany	Erbengemeinschaft Fickelscheer, Veith + Günthert	Salamander GmbH	735	Until 30/06/2014	EUR 17,895	Shop	1950
Alter Spandauer Weg 4 a, Wustermark, 14641, Germany	Hartwig Dowe	Salamander GmbH	1,035	Until 28/02/2014	EUR 7,200	Factory outlet	1975
		Total	<u>46,067</u>				

2. We were advised the owner of the property is an independent third party from the Egana Group.

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Egana Group. The Egana Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquires, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

This circular also includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Lifestyle Group. The Lifestyle Directors jointly and severally accept full responsibility for the accuracy of the information relating to the Lifestyle Group contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular relating to the Lifestyle Group have been arrived at after due and careful consideration and there are no other facts relating to the Lifestyle Group not contained in this circular, the omission of which would make any statement herein misleading.

## 2. SHARE CAPITAL

### (a) Authorised and issued share capital

The authorised and issued share capital of Egana as at the Latest Practicable Date were as follows:

HK\$

*Authorised:*

<u>2,000,000,000</u>	Egana New Shares	<u>20,000,000.00</u>
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*Issued and fully paid:*

<u>1,464,001,524</u>	Egana New Shares	<u>14,640,015.24</u>
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The authorised and issued share capital of Egana following the Capital Increase taking effect and completion of the Restructuring Proposal will be as follow:

HK\$

*Authorised:*

<u>50,000,000,000</u>	Egana New Shares	<u>500,000,000.00</u>
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<i>Issued and fully paid Egana New Shares:</i>		<i>HK\$</i>
1,464,001,524	Egana New Shares	14,640,015.24
4,342,642,652	Subscription Shares to be issued under the Subscription	43,426,426.52
21,377,357,340	Conversion Shares to be issued upon full conversion of the Lifestyle Convertible Bonds and the Participating Creditors' Convertible Bonds	213,773,573.40
<hr/>		<hr/>
<u>27,184,001,516</u>	Egana New Shares	<u>271,840,015.16</u>

All Egana New Shares rank pari passu in all respects including all rights as to dividends, voting and capital. All Egana New Shares to be in issue following completion of the Restructuring Proposal will rank pari passu in all respects with each other as regards to dividends, voting and return of capital.

Since 31 May 2007 (the date to which the latest published audited consolidated financial statements of the Egana Group were made up) and up to the Latest Practicable Date, no Egana Shares had been issued by Egana. As at the Latest Practicable Date, there was no outstanding convertible note or share options or warrants or other conversion rights which could be converted into Egana Shares.

**(b) Share option**

There were no outstanding warrants, share options or equity derivatives which were convertible or exchangeable into the Egana Shares as at the Latest Practicable Date.

## 3. DISCLOSURE OF INTERESTS

## (a) Egana Directors' and chief executives' interests and short positions in shares, underlying shares and debentures of Egana or any of its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Egana Directors and chief executive of Egana in the shares, underlying shares or debentures of Egana or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to Egana and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to Egana and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules were as follows:

*Long position in Egana Shares*

Name of Egana Director	Number of Egana Shares held				Total Interests	Approximate % of the total issued share capital
	Personal Interests	Family Interests	Corporate Interests	Other Interests		
Peter Ka Yue LEE	531,377	-	8,279,998 <i>(Note)</i>	-	8,811,375	0.60%
Michael Richard POIX	2,923,500	-	-	-	2,923,500	0.20%
Juergen Ludwig HOLZSCHUH	3,300	-	-	-	3,300	0%
Professor Udo GLITTENBERG	116,751	-	-	-	116,751	0.01%
Dr. Goetz Reiner WESTERMEYER	291,877	-	-	-	291,877	0.02%

*Note:* These shares were beneficially owned by Joshua Limited, a company wholly and beneficially owned by Mr. Peter Ka Yue LEE.

Save as disclosed above, as at the Latest Practicable Date, none of the Egana Directors or chief executive of Egana had any interests or short positions in the shares, underlying shares or debentures of Egana or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to Egana and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Egana Directors and chief executives of Egana were taken or deemed to have under the provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to Egana and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

**(b) Substantial Egana Shareholders' interests and short positions in Egana Shares or underlying Egana Shares**

As at the Latest Practicable Date, so far as was known to any Egana Directors or chief executive of Egana, the following persons (other than an Egana Director or chief executive of Egana) had interests or short positions in the Egana Shares or underlying Egana Shares which would fall to be disclosed to Egana under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Egana Group or had any options in respect of such capital:

*Long position in the Egana Shares*

Name of Egana Shareholder	Number of Egana Shares			Approximate % of the total issued share capital
	Beneficial Owner	Security Interests	Total Interests	
Joint Asset ( <i>Note i</i> )	434,345,736	–	434,345,736	29.67%
Peninsula International Limited ( <i>Note ii</i> )	485,388,326	–	485,388,326	33.15%
Billion Empire Limited ( <i>Note iii</i> )	–	434,345,736	434,345,736	29.67%

*Notes:*

- i. Joint Asset is a wholly-owned subsidiary of Peninsula International Limited (“PIL”).
- ii. The interest includes 51,042,590 and 434,345,736 Egana Shares held by PIL and Joint Asset respectively. PIL is a wholly-owned investment holding company of The Captive Insurance Trust, a discretionary trust whose prospective beneficiaries included Mr. Hans-Joerg SEEBERGER, who passed away on 19 October 2007, and his family.
- iii. The 434,345,736 Egana Shares under the security interests of Billion Empire Limited (“Billion Empire”) were in fact the same block of shares under the beneficial interest of Joint Asset. Joint Asset pledged its beneficial holding of 434,345,736 Egana Shares to Billion Empire. Billion Empire was wholly-owned by Lifestyle and that Mr. Lau Luen Hung Thomas and Chow Tai Fook Enterprises Limited were ultimate substantial shareholders of Lifestyle.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to any Egana Directors or chief executive of Egana, no other persons (not being an Egana Director or chief executive of Egana) had any interests or short positions in the Egana Shares or underlying Egana Shares which would fall to be disclosed to Egana under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Egana Group or had any options in respect of such capital.

#### 4. SERVICE CONTRACTS

None of the Egana Directors has any service contract with Egana or any of its subsidiaries or associated companies in force which are fixed term contracts with more than 12 months to run irrespective of notice period, or which are continuous contracts with a notice period of 12 months or more, or is not terminable by the Egana Group within one year without payment of compensation (other than statutory compensation) or which has been entered into or amended within six months before the date of the Announcement.

#### 5. LITIGATION

Save as disclosed below, as at the Latest Practicable Date, none of the members of the Egana Group was engaged in any litigation or claims of material importance and no litigation or claim of material importance was known to the Egana Directors to be pending or threatened against any member of the Egana Group.

Claimant	Respondent	Object	Amount in EUR	Status
Christian Dior Couture S.A. France	EganaGoldpfeil Deutschland GmbH	Alleged imitation of CD watch model by ESPRIT watch model "lazy"	86,950	Pending
Piaget International S.A., Switzerland	Egana Schmuck und Perlen GmbH	Alleged infringement of jewellery design by MEXX model	182,000	Dormant
Egana Italia S.r.l.	Italian Tax Authorities	Action against penalty imposed for formal mistake in tax declaration	50,000	Pending
Salamander GmbH	Alban Company s.r.l., Italy	Deficient production and non-delivery of shoes	95,606	Pending
Salamander GmbH	CW Shoes and Trend Company Ltd., Düsseldorf	Warning letter sent due to defects – complaint planned	53,262	Pending
JOOP!	Jette Joop	Trademark and naming rights, violation of co-existence agreement	(prohibitory injunction)	Pending, appeal filed by Jette Joop against judgment in favour of claimant
SLG Kunststoff-Fabrik und Formenbau GmbH, Germany	Junghans Uhren GmbH	Compensation claim for unjustified warning letter re patent infringement for radio-controlled timepieces	850,000	Complaint with Federal Supreme Court for non-admission of appeal

Claimant	Respondent	Object	Amount in EUR	Status
Junghans Uhren GmbH	Tchibo GmbH	Compensation claim for patent infringement	500,000	Action filed
Crédit Agricole	DK Digital GmbH	Assigned claim for outstanding purchase price	515,000	Delivery of judgment in progress
DK Digital GmbH	PowerSafer GmbH	Claim for outstanding receivables	692,000	Pending
Ludwig Wildenauer	European Technology and Logistic Center GmbH	Complaint against dismissal	88,373	Pending
CARTIER, division of Richemont North America, Inc/ Cartier International N.V./CARTIER Creation Studio, S.A.	Egana of Switzerland (America) Corp.	Permanent injunction against infringement, delivery up of infringing merchandise/ advertising materials, damages (reasonable royalty, willful infringement, punitive) and costs	500,000	Action filed

## 6. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinion or advice which are contained in this circular:

Name	Qualification
Access Capital	Licensed corporation under the SFO to conduct types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities
BDO	Certified public accountants
CBRE	Independent property valuers

Access Capital, BDO and CBRE have given and have not withdrawn their respective written consents to the issue of this circular with the inclusion herein of their respective letters and reports (as the case may be) and references to their respective names, in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of Access Capital, BDO and CBRE was beneficially interested in the share capital of any member of the Egana Group, nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for

securities in any member of the Egana Group, nor did they have any interest, either directly or indirectly, in any assets which had been since 31 May 2007 (being the date to which the latest published audited accounts of Egana were made up) acquired or disposed of by or leased to any member of the Egana Group or which were proposed to be acquired or disposed of by or leased to any member of the Egana Group.

## 7. MATERIAL CONTRACTS

The following material contracts (not being contracts entered into in the ordinary course of business) had been entered into by the Egana Group within the two years preceding the date of the Announcement and ended on the Latest Practicable Date:

- (a) a credit agreement dated 23 September 2007 as amended by the supplemental agreement dated 25 January 2008 and the letter agreements dated 25 February 2008, 31 March 2008, 7 May 2008 and 16 June 2008 each entered into between Egana and Billion Empire Holdings Limited (as the “Lender”) in relation to the HK\$300 million Bridging Loan for use by Egana to meet the ongoing essential ordinary course operating expenses of the Egana Group for a period not beyond 12:00 p.m. on 30 June 2008 unless a later date is approved by the Lender with interest accruing at a rate equal to the aggregate of (i) two (2) per cent, and (ii) the prime rate for the HK\$ offered from time to time by the Hong Kong and Shanghai Banking Corporation, payable at the final maturity date and secured by the following:
  - (i) a charge over all equity interests in PC International Marketing Limited (“PCIM”), a wholly-owned subsidiary of Egana holding and operating the brand “Pierre Cardin”, and a debenture over the assets of PCIM;
  - (ii) a charge over the Egana Group’s owned office premises in Hong Kong;
  - (iii) charges over the bank accounts in which the Bridging Loan funds are held; and
  - (iv) a charge over the Egana Shares held by Joint Asset;
- (b) the Debt Restructuring Agreement;
- (c) a syndicated loan agreement dated 15 June 2007 entered into between Egana, CCB International Finance Limited and CITIC Ka Wah Bank Limited, the banks and other financial institutions listed therein (as “Lenders”), and CITIC Kah Wah Bank Limited (as mandated coordinating arrangers and an agent) whereby the Lenders agree to make available to Egana a total of HK\$1,000,000,000 for the refinancing of Egana’s existing indebtedness and to finance general working capital requirements of Egana and its subsidiaries, with interest accruing day to day for interest periods of either one, two, three or six month periods (as selected by Egana), at an interest rate per annum determined by the agent to be the aggregate of (i) HIBOR for the interest period selected by Egana, and (ii) 0.875%, with the whole loan being repayable in four instalments over a thirty-six month period from the date of the agreement, and secured by a guarantee given by certain subsidiaries of Egana; and



- (d) a settlement and coexistence agreement dated 19 June 2007 between Carrera y Carrera, S.A and EganaGoldpfeil (Switzerland) Limited whereby the parties agreed to resolve their disputes against each other in respect of each other's right to use, register, or to authorize others to use their respective trademarks inter alia for jewellery, watches and leather goods in various countries and to avoid further controversy by EganaGoldpfeil (Switzerland) Limited assigning to Carrera y Carrera, S.A all rights, title and interest it has in a certain trademark for jewellery in return for a one time payment, each party agreeing to restrictions on use of their trademarks to avoid confusion and risk of dilution of their trademarks and the dismissal of pending court proceedings with each party bearing its own costs.

## 8. SHAREHOLDINGS AND DEALINGS

- (a) None of Lifestyle, any parties acting in concert with it and any of their respective directors owned or controlled any Egana Shares, convertible securities, warrants, options or derivatives of Egana as at the Latest Practicable Date.
- (b) Each of Mr. Peter Ka Yue Lee and Mr. Michael Richard Poix was granted a share option to subscribe for an aggregate of 500,000 Egana Shares at an exercise price of HK\$2.11 per Egana Share in January 2000 for a term of 10 years pursuant to the executive share option scheme of Egana. On 14 March 2008, Mr. Lee and Mr. Poix informed the Egana Board their decision to relinquish the share option. Their decision was accepted by the Egana Board on 17 March 2008. Save for this, none of Lifestyle, any parties acting in concert with it or any of their respective directors or the Egana Directors had dealt for value in any securities of Egana during the Relevant Period.
- (c) Neither Lifestyle nor its parties acting in concert had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code. No person with whom Lifestyle or its parties acting in concert had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code owned or controlled any Egana Shares, convertible securities, warrants, options or derivatives of Egana as at the Latest Practicable Date, and none of them had dealt for value in any such securities during the Relevant Period.
- (d) Neither Access Capital, BDO nor CBRE nor any other advisers to Egana as specified in class (2) of the definition of associate in the Takeovers Code, their respective ultimate holding companies, nor any of their respective subsidiaries or fellow subsidiaries owned or controlled any Egana Shares, convertible securities, warrants, options or derivatives of Egana as at the Latest Practicable Date.
- (e) No subsidiary of Egana or a pension fund of Egana or of its subsidiaries owned or controlled any Egana Shares, convertible securities, warrants, options or derivatives of Egana as at the Latest Practicable Date.
- (f) No fund manager connected with Egana owned or controlled any Egana Shares, convertible securities, warrants, options or derivatives of Egana as at the Latest Practicable Date.

- (g) As at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) between Lifestyle or any of its concert parties and other persons in relation to the transfer, charge or pledge of the Egana Shares that may be subscribed by Lifestyle or any of its parties acting in concert under the Subscription Agreement.
- (h) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with Egana or with any person who is an associate of Egana by virtue of classes (1), (2), (3) and (4) of the definition of associate in the Takeovers Code.
- (i) None of Egana and the Egana Directors held any shares, convertible securities, warrants, options and derivatives in respect of shares of Lifestyle as at the Latest Practicable Date and none of them had dealt for value in any shares, convertible securities, warrants, options and derivatives in respect of shares of Lifestyle for the Relevant Period.

## 9. MARKET PRICES

- (a) The table below shows the closing prices of the Egana Shares as quoted on the Stock Exchange on (i) the last trading day of each of the six calendar months immediately preceding 2 October 2007 and ended on the Last Trading Day; and (ii) the Last Trading Day:

<b>Date</b>	<b>Closing price</b> <i>HK\$</i>
30 April 2007	5.71
31 May 2007	5.89
29 June 2007	6.83
30 July 2007 (Trading in Egana Shares was suspended at 10:00 a.m. on 30 July 2007 and on the whole day on 31 July 2007)	2.80
29 August 2007 (Trading in Egana Shares was suspended on 30 August 2007 and 31 August 2007)	2.18
11 September 2007 (being the Last Trading day)	0.66

- (b) Due to the suspension, there was no market price as at the Latest Practicable Date. Therefore, the market prices for each of the calendar months for the period commencing six months preceding the date of the Announcement and the highest and lowest closing prices of Egana Shares during the Relevant Period were not available.

**10. GENERAL**

- (a) As at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) existing between Lifestyle or its concert parties and any of the Egana Directors, recent Egana Directors, Egana Shareholders, recent Egana Shareholders and any other person which is conditional on or connected with or dependent upon the Subscription Agreement, the Whitewash Waiver and the Special Deal Repayment. As at the Latest Practicable Date, there was no such arrangement, agreement and understanding between the Egana Directors and any other person.
- (b) As at the Latest Practicable Date, no Egana Directors or Independent Egana Shareholders had irrevocably committed themselves to vote for or against the Subscription Agreement, the Whitewash Waiver and the Special Deal Repayment. It is the intention of the independent non-executive Egana Directors to vote for the resolutions in respect of the Subscription Agreement, the Whitewash Waiver and the Special Deal Repayment.
- (c) As at the Latest Practicable Date, there was no benefit (other than statutory compensation) to be given to any Egana Directors as compensation for loss of office or otherwise in connection with the Subscription Agreement, the Whitewash Waiver and the Special Deal Repayment.
- (d) As at the Latest Practicable Date, there was no material contract entered into by Lifestyle in which any Egana Director had a material personal interest.
- (e) Real Reward Limited, the controlling Lifestyle Shareholder, was interested in approximately 63.28% of the issued share capital of Lifestyle as at the Latest Practicable Date. Real Reward Limited is jointly owned by United Goal Resources Limited and Go Create Limited in equal shares. United Goal Resources Limited is ultimately owned by Mr. Lau Luen-hung, Thomas and a family trust with certain family members of Mr. Lau Luen-hung, Joseph as eligible beneficiaries. Go Create Limited is wholly owned by Chow Tai Fook Enterprises Limited, of which family members of Dató Dr. Cheng Yu-tung have controlling interests.

Mr. Lau Luen-hung, Thomas, Mr. Lau Luen-hung, Joseph and Dr. Cheng Kar-shun, Henry are directors of Real Reward Limited.

As at the Latest Practicable Date, the Lifestyle Board comprises two executive directors, namely, Messrs. Lau Luen Hung, Thomas and Doo Wai Hoi, William, four non-executive directors, namely Dató Dr. Cheng Yu Tung, Dr. Cheng Kar Shun, Henry, Mr. Lau Luen Hung, Joseph and Ms. Lau Yuk Wai, Amy and four independent non-executive directors, namely, Mr. Lam Siu Lun, Simon, Mr. Cheung Yuet Man, Raymond, The Hon. Shek Lai Him, Abraham and Mr. Hui Chiu Chung, Stephen.

- (f) The registered office of Lifestyle is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The head office and principal place of business of Lifestyle in Hong Kong is situated at 20th Floor, East Point Centre, 555 Hennessy Road, Causeway Bay, Hong Kong.

**11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during 9:00 a.m. to 6:00 p.m., Monday to Friday (except public holidays) at Egana's head office and principal place of business in Hong Kong at Block C, 11th Floor, Hong Kong Industrial Centre, 489-491 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong, from the date of this circular up to the date of the Egana EGM:

- (a) the memorandum and articles of association of Egana;
- (b) the annual reports of Egana for the two years ended 31 May 2006 and 2007;
- (c) the interim report of Egana for the six months ended 30 November 2007;
- (d) the letter from the Independent Egana Board Committee, the text of which is set out on page 52 of this circular;
- (e) the letter from Access Capital, the text of which is set out on pages 53 to 73 of this circular;
- (f) the letter from BDO regarding the unaudited pro forma financial information on the Egana Group, the text of which is set out in appendix II to this circular;
- (g) the valuation report prepared by CBRE, the text of which is set out in appendix III to this circular;
- (h) the material contracts referred to in the paragraph headed "Material contracts" of this appendix;
- (i) the written consents referred to in the paragraph headed "Experts and consents" of this appendix; and
- (j) the draft Subscription Agreement, the Participating Creditors' CB Subscription Agreement and the Delinquent Debts Agreement.

Copies of these documents will be available for inspection on the website of Egana ([www.egana.com](http://www.egana.com)) and on the website of the SFC ([www.sfc.hk](http://www.sfc.hk)) from the date of this circular and up to and including the date of the Egana EGM.

**12. MISCELLANEOUS**

- (a) The registered office of Egana is situated at One Capital Place, P. O. Box 897, George Town, Grand Cayman KY1-1103, Cayman Islands, British West Indies. The principal place of business of Egana in Hong Kong is situated at Block C, 11th Floor, Hong Kong Industrial Centre, 489-491 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong.
- (b) The branch registrars and transfer office of Egana in Hong Kong is Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.
- (c) The financial adviser of Egana is Somerley Limited, the office of which is 10th Floor, The Hong Kong Club Building, 3A Chater Road, Central, Hong Kong.
- (d) The independent financial adviser of Egana is Access Capital at Suite 606, 6th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.
- (e) In case of inconsistency, the English texts of this circular and the accompanying form of proxy shall prevail over the Chinese texts.

## NOTICE OF EXTRAORDINARY GENERAL MEETING

# EGANA GOLDPFEIL

(HOLDINGS) LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

(Stock code: 48)

**NOTICE IS HEREBY GIVEN** that the extraordinary general meeting of EganaGoldpfeil (Holdings) Limited (“Egana”) will be held at Gloucester Room II, 3/F, The Excelsior, Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong on 29 July 2008 at 11:30 a.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions of Egana:

### ORDINARY RESOLUTIONS

1. **THAT:**

- (a) the English law governed debt restructuring agreement dated 26 May 2008 between, inter alia, Egana (for itself and on behalf of certain debtors referred to therein), Lifestyle International Holdings Limited (as Investor), CITIC Ka Wah Bank Limited (as Asian Coordinator, Paying Agent and Security Agent), Dresdner Bank AG (as European Coordinator) and banks and other financial institutions listed therein (as Participating Creditors) (the **Debt Restructuring Agreement**) setting out the terms of the corporate and financial restructuring of Egana, its associates and subsidiaries (the **Restructuring**);
- (b) the English law governed guarantee between, inter alia, Egana (as a Guarantor) and CITIC Ka Wah Bank Limited (as Security Agent and Trustee for Participating Creditors), providing for an independent guarantee by Egana for the payment by the Issuer of all amounts owing under or pursuant to the Participating Creditors’ Convertible Bond Documents (as defined in paragraph (f) below) (the **Participating Creditor’s Convertible Bonds Guarantee**);
- (c) the English law governed guarantee between, inter alia, Egana (as a Guarantor) and CITIC Ka Wah Bank Limited (as Security Agent and Trustee for Participating Creditors), providing for an independent guarantee by Egana for the payment of specific amounts owed under the Debt Restructuring Agreement and the Existing Loan Documents (each as defined in the Debt Restructuring Agreement) (the **Participating Creditor’s Restructured Debt Guarantee**);
- (d) the English law governed subscription agreement between, inter alia, Horizon Asset Holdings Ltd, Egana, the Participating Creditors, and CITIC Ka Wah Bank Limited, providing the terms of the issue and subscription of HK\$80,000,000 of convertible bonds with a conversion price of HK\$0.05 per share (the **Participating Creditors Convertible Bonds**) to be issued by Horizon Asset Holdings Ltd (a subsidiary of Egana) to the Participating Creditors as subscribers in consideration of the reduction of the Participating Creditors Debt (as defined therein) on a pro-rata basis by such amount (and scheduling the terms and conditions of the Participating Creditors’ Convertible Bonds) (the **Participating Creditor Convertible Bond Subscription Agreement**);

## NOTICE OF EXTRAORDINARY GENERAL MEETING

- (e) the English Law governed trust deed between, inter alia, Egana, Horizon Asset Holdings Ltd (as Issuer) and CITIC Ka Wah Bank Limited (as Trustee), governing the relationship between the Issuer and the Trustee who holds the Participating Creditor Convertible Bonds for the benefit of the bondholders (the **Participating Creditor Convertible Bond Trust Deed**);
- (f) the English law governed paying agency agreement between, inter alia, Horizon Asset Holdings Ltd, Egana and CITIC Ka Wah Bank limited (as principal agent, registrar and trustee) appointing CITIC Ka Wah Bank Limited as registrar and agent and establishing the terms of its role vis-a-vis the payment of monies in relation to Participating Creditor Convertible Bonds (the **Participating Creditor Convertible Bond Agency Agreement**) (together with the Participating Creditors' Convertible Bonds Subscription Agreement and Participating Creditors' Convertible Bonds Trust Deed, the **Participating Creditor Convertible Bond Documents**);
- (g) the Hong Kong law governed subscription agreement between, inter alia, Egana, Treasure Focus Ltd (a subsidiary of Lifestyle International Holdings Ltd) (as subscriber for the Lifestyle Convertible Bonds), Horizon Asset Holdings Ltd (as Issuer) and Win Promise Limited (a subsidiary of Lifestyle International Holdings Limited) (as subscriber for the subscription shares) providing for the terms on which the respective subscribers will subscribe for 4,342,642,652 shares in Egana each with a par value of HK\$0.01 per share (the **Subscription Shares**), and for the HK\$988,867,867 of convertible bonds to be issued by Horizon Asset Holdings Ltd (the **Lifestyle Convertible Bonds**) each with a conversion price of HK\$0.05 per share (the **Lifestyle Subscription Agreement**);
- (h) the English law governed trust deed between Egana and Horizon Asset Holdings Ltd (as bond issuer) (the **Lifestyle Convertible Bond Instrument**);
- (i) the English law governed guarantee between, inter alia, Egana (as a Guarantor) and Treasure Focus Limited (as subscriber for the Lifestyle Convertible Bonds), providing for an independent guarantee by Egana for the payment by the Issuer (as defined therein) of all amounts owing under or pursuant to the Lifestyle Convertible Bonds (each as defined in the Debt Restructuring Agreement) (the **Lifestyle Convertible Bond Guarantee**);
- (j) a director's certificate in a form satisfactory to Cayman Island counsel and as required pursuant to Schedule 5 of the Debt Restructuring Agreement;
- (k) the English law governed Delinquent Debts Agreement between Egana, CITIC Ka Wah Bank Limited and Dresdner Bank AG (together as **Coordinators**) and CITIC Ka Wah Bank Limited (as **Paying Agent**) pursuant to which the delinquent debt creditors will share any recoveries and the related costs and expenses of any claims in relation to the Delinquent Debts with the Participating Creditors (the **Delinquent Debts Agreement**);

## NOTICE OF EXTRAORDINARY GENERAL MEETING

- (l) the restructuring opinion (“Sanierungsgutachten”) according to IDW FAR 1/1991 confirming the Egana Group’s ability to achieve the Restructuring Plan to be prepared by the independent financial advisor to Egana in form and substance acceptable to the Coordinators acting on the instructions of the Participating Creditors (the **Restructuring Opinion**);
- (m) the plan setting out the analyses conducted and measures approved, planned and/or implemented by and under the responsibility of the management of the Egana Group in connection with the current restructuring process to enable the Egana Group (or a substantial part of it) to continue on a going-concern basis for at least two years as amended from time to time during the Restructuring Period (the **Restructuring Plan**);
- (n) the letters setting out the terms of payment for the Asian Coordinator, the European Coordinator, the Paying Agent and the Security Agent as referred in the Debt Restructuring Agreement (together the **Fee Letters**); and
- (o) any other document designated as a “Restructuring Document” by the Coordinators and Egana, and any document incidental to, or which Egana deems necessary or beneficial, in connection with the documents listed in this paragraph 1, or in any way connected with the Restructuring,

(with all such documents referred to in paragraph 1 above being the **Restructuring Documents**) be and are each hereby generally and unconditionally approved, and the transactions contemplated under the Restructuring Documents and under the Restructuring, and the performance of such transactions by Egana or any director thereof, be and are generally and unconditionally approved, and the execution of any or all of such Restructuring Documents by Egana on behalf of itself, or (as appropriate) on behalf of the Debtors or the New Guarantors (pursuant to and in accordance with the Powers of Attorney granted to it by those companies), be generally and unconditionally approved and, to the extent that the execution of some or all of the Restructuring Documents by Egana has already taken place as at the date hereof, such execution is hereby generally and unconditionally ratified, confirmed and approved in all respects as fully as if such action had been approved by the Shareholders prior to it having occurred.

- 2. **THAT** any one of the directors of Egana (**Directors**) be and is hereby authorised to exercise the authorities, powers and discretion on behalf of the board of Directors to sign, execute, perfect and deliver and/or receive all such documents or any other document relating in any way to the Restructuring and do all such deeds, acts, matters and things and take such steps as he or she may in his or her absolute discretion consider necessary, appropriate, desirable, or expedient for the purposes of or in connection with the implementation of the Restructuring or the Restructuring Documents and all transactions and other matters contemplated thereunder or ancillary or incidental thereto, to waive compliance from and/or to agree to any amendment or supplement to any of the provisions of the Restructuring Documents, and to effect or implement any other matters referred to in this resolution;



## NOTICE OF EXTRAORDINARY GENERAL MEETING

3. **THAT** any and all actions of Egana or of any Director or officer or any attorney, taken in conjunction with the actions contemplated by the Restructuring or the Restructuring Documents prior to the date hereof be and are hereby ratified, confirmed, approved and adopted in all respects as fully or if such actions had been presented for approval, and approved by, the shareholders of Egana prior to such action being taken.
4. **THAT**, subject to the passing of ordinary resolution number 1, 2 and 3 above:
  - (a) the authorised share capital of Egana be increased from HK\$20,000,000 divided into 2,000,000,000 ordinary shares of HK\$0.01 each to HK\$500,000,000 divided into 50,000,000,000 ordinary shares of HK\$0.01 each by the creation of an additional 48,000,000,000 new shares of HK\$0.01 each (**Increase in Authorised Share Capital**); and
  - (b) any Director of Egana be and is hereby authorised for and on behalf of Egana to execute all such documents, instruments and agreements and to do all such acts or things deemed by him or her to be necessary to effect, incidental to, or in any way connection with, the Increase in Authorised Share Capital;
5. **THAT**, subject to the passing of ordinary resolution number 1, 2, 3 and 4 above, the issuance and allotment of the Subscription Shares to the Equity Subscriber in accordance with the terms of the Subscription Agreement be and are hereby approved;
6. **THAT**, subject to the passing of ordinary resolution number 1, 2, 3 and 4:
  - (a) the issuance of the Participating Creditors' Convertible Bonds by Horizon Asset Holdings Ltd and (upon the exercise of the conversion rights attached thereto) the issue and allotment of the relevant Conversion Shares to the Participating Creditors, in each case in accordance with the terms of the Participating Creditors' CB Subscription Agreement, be and are hereby approved; and
  - (b) the issue of the Lifestyle Convertible Bonds by Horizon Asset Holdings Ltd and (upon the exercise of the conversion rights attached thereto) the issue and allotment of the relevant Conversion Shares to the Bond Subscriber, in each case in accordance with the terms of the Subscription Agreement, be and are hereby approved;

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7. **THAT**, subject to the passing or ordinary resolution 1 to 6 above:
- (a) the repayment of the Bridging Loan by the Company to Billion Empire Limited in accordance with the terms and conditions thereof, and in accordance with the terms and conditions of the Debt Restructuring Agreement be and is hereby approved; and
  - (b) the release of any security granted in favour of Billion Empire Limited in consideration for, or in any way relating to, the provision of the Bridging Loan be and is hereby approved;
8. **THAT** :
- (a) subject to and conditional upon the passing of ordinary resolution no.1, 2 and 3, the Whitewash Waiver granted or to be granted by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers in respect of the obligation on the part of Lifestyle and its Concert Parties to make a mandatory general offer to all of the shareholders of Egana for all of the Egana Shares not already owned by Lifestyle or its Concert Parties, or agreed to be acquired by Lifestyle or its Concert Parties pursuant to the subscription of the Subscription Shares and the allotment and issue of the Conversion Shares upon the exercise of conversion rights attaching to the Lifestyle Convertible Bonds, under Rule 26 of the Hong Kong Code on Takeovers and Mergers as a result of the allotment and issue of the Subscription Shares and Conversion Shares be and is hereby approved; and
9. **THAT** :
- (a) subject to and conditional upon the passing of ordinary resolution no. 1, 2 and 3, the Special Deal Repayment and the application to the Executive for the Special Deal Consent pursuant to Note 5 of Rule 25 of the Hong Kong Code on Takeovers and Mergers in respect of the Special Deal Repayment be and are hereby approved; and
  - (b) any Director of Egana be and is hereby authorised in his or her absolute discretion to exercise the authorities, powers and discretion on behalf of the Directors to deal with all matters and sign any ancillary documentation in relation to and in connection with the Special Deal Consent.

On behalf of the Board  
**EganaGoldpfeil (Holdings) Limited**  
**Michael Richard POIX**  
*Chief Executive Officer*

Hong Kong, 30 June 2008

## NOTICE OF EXTRAORDINARY GENERAL MEETING

*Principal place of business in Hong Kong:*

Block C, 11th 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 above meeting may appoint a proxy to attend and, on a poll vote on his behalf and such proxy need not be a member of Egana. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed. A form of proxy for use at the meeting is enclosed.
- (2) In order to be valid, the form of proxy, together with any power of attorney or authority under which it is signed or a certified copy of that power of attorney or authority, must be deposited at Egana's principal place of business in Hong Kong at Block C, 11th Floor, Hong Kong Industrial Centre, 489-491 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong not less than forty-eight (48) hours before the time appointed for holding the meeting or any adjournment thereof.
- (3) Completion and return of the form of proxy will not preclude a shareholder of Egana from attending and voting in person at the meeting convened or any adjournment thereof and in such event, the authority of the proxy shall be deemed to be revoked.
- (4) Vote on the ordinary resolutions to be proposed at the meeting will be taken by way of poll.