

# CORPORATE INFORMATION

## PRINCIPAL ACTIVITY

Design, assembly, manufacturing and distribution of timepieces, jewellery and leather & lifestyle products; licensing or assignment of brandnames to third parties; and trading of timepiece components, jewellery and consumer electronic products

## HEAD OFFICE & PRINCIPAL PLACE OF BUSINESS

Block C, 11th Floor, Hong Kong Industrial Centre  
489-491 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong  
Tel: (852) 2741 2008 Fax: (852) 2744 9909 E-mail: egh@eganahk.com

## EUROPEAN HEADQUARTERS

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## WEBSITE

<http://www.egana.com>

## REGISTERED OFFICE

P.O. Box 1787, 2nd Floor, One Capital Place  
Grand Cayman, Cayman Islands, British West Indies

## HONG KONG SHARE REGISTRARS & TRANSFER OFFICE

Secretaries Limited, G/F., Bank of East Asia Harbour View Centre  
56 Gloucester Road, Wanchai, Hong Kong

## LISTING

The Stock Exchange of Hong Kong Limited  
(Constituent Stock of Hang Seng Composite Index Series)

Stock Code: 48

The board of directors (the "Directors") of EganaGoldpfeil (Holdings) Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th November, 2004 together with the comparative figures for the six months ended 30th November, 2003 which are summarised as under. These results have been reviewed by the Audit Committee of the Company.

## UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	<b>Six months ended</b>	
		<b>30th November, 2004 (Unaudited) <i>HK\$'000</i></b>	<b>30th November, 2003 (Unaudited) <i>HK\$'000</i></b>
Turnover	2	<b>1,670,467</b>	1,532,467
Cost of sales		<b>(973,905)</b>	(901,586)
Gross profit		<b>696,562</b>	630,881
Other revenues		<b>42,420</b>	29,933
Distribution costs		<b>(340,838)</b>	(269,716)
Administrative expenses		<b>(255,477)</b>	(263,141)
Operating profit		<b>142,667</b>	127,957
Finance costs		<b>(38,731)</b>	(45,383)
Profit before share of profit/(loss) of associated companies		<b>103,936</b>	82,574
Share of profit/(loss) of associated companies		<b>9,011</b>	7,291
Profit before taxation	2, 3	<b>112,947</b>	89,865
Taxation	4	<b>(8,916)</b>	(6,475)
Profit after taxation but before minority interests		<b>104,031</b>	83,390
Minority interests		<b>(15,340)</b>	(10,424)
Profit attributable to shareholders		<b>88,691</b>	72,966
Dividends	5	<b>30,204</b>	23,239
Earnings per share	6		
Basic		<b>7.51 cents</b>	6.43 cents
Diluted		<b>6.85 cents</b>	6.31 cents

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months ended	
	30th November, 2004 (Unaudited) <i>HK\$'000</i>	30th November, 2003 (Unaudited) <i>HK\$'000</i>
Opening balance - Total equity	<u>1,433,228</u>	<u>1,276,707</u>
Surplus on revaluation of listed non-trading securities	7,920	3,375
Exchange differences on translation of the financial statements of overseas subsidiaries	(4,671)	(3,040)
Share of exchange translation deficit of an associated company	<u>(139)</u>	<u>(7)</u>
Net gains and losses not recognised in the profit and loss account	3,110	328
Net profit for the period	<u>88,691</u>	<u>72,966</u>
	<b>1,525,029</b>	1,350,001
Goodwill transferred to profit and loss account on partial disposal of interest in an associated company	—	2,874
Issue of share capital upon conversion of convertible bonds	31,604	5,673
Share premium arising from conversion of convertible bonds	5,792	2,113
Dividends	<u>(29,846)</u>	<u>(34,130)</u>
Closing balance - Total equity	<u><b>1,532,580</b></u>	<u><b>1,326,531</b></u>

## CONSOLIDATED BALANCE SHEET

		As at 30th November, 2004 (Unaudited) <i>HK\$ '000</i>	As at 31st May, 2004 (Audited) <i>HK\$ '000</i>
	<i>Notes</i>		
<b>Non-current assets</b>			
Fixed assets	7	231,541	222,366
Intangible assets	8	504,481	438,471
Deferred tax assets		104,224	104,088
Interests in associated companies		137,381	130,641
Investments in non-trading securities	9	340,448	332,503
Long-term receivables		20,000	30,000
		<hr/>	<hr/>
		1,338,075	1,258,069
		<hr/>	<hr/>
<b>Current assets</b>			
Inventories		998,876	895,286
Accounts receivable, net	10	524,985	854,277
Deposits, prepayments and other receivables		631,135	330,725
Due from associated companies		10,839	9,595
Short-term investments		234,451	126,549
Cash and cash equivalents		654,149	562,684
		<hr/>	<hr/>
		3,054,435	2,779,116
		<hr/>	<hr/>
<b>Current liabilities</b>			
Accounts payable	11	(320,709)	(250,536)
Accruals and other payables		(388,604)	(334,308)
Bills payable		(175,892)	(141,448)
Provisions		(21,072)	(25,968)
Short-term bank borrowings	12	(759,029)	(639,540)
Current portion of long-term bank borrowings	12	(133,590)	(117,593)
Current portion of other long-term loans		(50,277)	(42,720)
Current portion of obligations under finance leases		(19,424)	(19,435)
Current portion of pensions and other post retirement obligations		(16,136)	(14,810)
Due to associated companies		(3,031)	(1,332)
Due to a Director		(512)	(11)
Loan from a minority shareholder		(1,413)	—
Taxation payable		(28,806)	(25,593)
Final dividend payable		(29,846)	—
		<hr/>	<hr/>
		(1,948,341)	(1,613,294)
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## CONSOLIDATED BALANCE SHEET *(continued)*

		As at 30th November, 2004 (Unaudited) <i>HK\$'000</i>	As at 31st May, 2004 (Audited) <i>HK\$'000</i>
<b>Net current assets</b>		<b>1,106,094</b>	1,165,822
<b>Total assets less current liabilities</b>		<b>2,444,169</b>	2,423,891
<b>Non-current liabilities</b>			
Long-term bank borrowings	12	<b>(328,230)</b>	(375,980)
Other long-term liabilities		<b>(8,699)</b>	(33,367)
Convertible bonds		<b>(122,460)</b>	(226,200)
Pensions and other post retirement obligations		<b>(215,388)</b>	(201,945)
Deferred tax liabilities		<b>(5,830)</b>	(3,167)
		<b>(680,607)</b>	(840,659)
<b>Minority interests</b>		<b>(230,982)</b>	(150,004)
<b>Net assets</b>		<b>1,532,580</b>	1,433,228
<b>Capital and reserves</b>			
Share capital	13	<b>1,203,434</b>	1,171,829
Reserves	14	<b>298,942</b>	231,972
Proposed interim/final dividend		<b>30,204</b>	29,427
<b>Shareholders' funds</b>		<b>1,532,580</b>	1,433,228

## CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	30th November, 2004 (Unaudited) <i>HK\$'000</i>	30th November, 2003 (Unaudited) <i>HK\$'000</i>
Cash generated by operations	<b>277,388</b>	520,604
Interest paid	<b>(28,598)</b>	(34,355)
Tax paid	<b>(6,519)</b>	(4,054)
Tax refund	<b>3,247</b>	3,359
	<hr/>	<hr/>
Net cash from operating activities	<b>245,518</b>	485,554
Net cash used in investing activities	<b>(195,427)</b>	(331,966)
Net cash from financing activities	<b>36,068</b>	85,777
	<hr/>	<hr/>
Net increase in cash and cash equivalents	<b>86,159</b>	239,365
Cash and cash equivalents at 1st June, 2004 / 1st June, 2003	<b>562,684</b>	352,266
Effect of foreign exchange rate changes	<b>5,306</b>	1,036
	<hr/>	<hr/>
Cash and cash equivalents at 30th November, 2004 / 30th November, 2003	<b>654,149</b>	592,667
	<hr/> <hr/>	<hr/> <hr/>
Analysis of cash and cash equivalents:		
Cash and bank balances	<b>239,444</b>	207,420
Promissory notes	<b>414,705</b>	385,247
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	<b>654,149</b>	592,667
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Notes:

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

The condensed interim 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 and with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The condensed interim accounts have been prepared under the historical cost convention, as modified for the revaluation of investments in non-trading securities, trading securities and leasehold land and buildings.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st May, 2004.

Notes: (continued)

## 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 strategic investments and other trading and non-trading securities. Strategic investments include investments in listed/unlisted securities and closed-end funds which could bring medium or long-term synergetic benefits to the Group's businesses such as strategic alliance and partnership with various distribution business in Asia for furtherance of its business penetration in the region.

	Six months ended 30th November, 2004					Group HK\$'000
	Timepieces HK\$'000	Jewellery HK\$'000	Leather & lifestyle products HK\$'000	Investments HK\$'000	Eliminations HK\$'000	
Turnover	839,858	420,668	409,941	—	—	1,670,467
Inter-segment revenue	8,531	3,791	3,558	—	(15,880)	—
Dividend income	—	—	—	559	—	559
Segment results	69,146	57,325	15,637	559	—	142,667
Finance costs						(38,731)
Profit before share of profit of associated companies						103,936
Share of profit of associated companies						9,011
Profit before taxation						112,947
Taxation						(8,916)
Profit after taxation						104,031
Minority interests						(15,340)
Profit attributable to shareholders						88,691



Notes: (continued)

2. Segmental information (continued)

(a) Primary reporting format - business segments (continued)

	Six months ended 30th November, 2004					Group HK\$'000
	Timepieces HK\$'000	Jewellery HK\$'000	Leather & lifestyle	Investments HK\$'000	Eliminations HK\$'000	
			products HK\$'000			
Capital expenditure	80,963	3,545	10,466	—	—	94,974
Depreciation	9,386	3,950	8,472	—	—	21,808
Amortisation	15,679	4,722	3,252	—	—	23,653
Write-back of provision for bad debts	—	291	—	—	—	291
Bad debt expense	1,376	331	373	—	—	2,080
Write-back of provision for inventory	—	22,748	—	—	—	22,748
Provision for inventory	2,156	—	1,791	—	—	3,947
	<b>As at 30th November, 2004</b>					
Segment assets	1,672,284	1,163,007	1,079,064	340,774	—	4,255,129
Interests in associated companies	136,740	(65)	706	—	—	137,381
Total assets						<u>4,392,510</u>
Segment liabilities	(1,437,615)	(625,462)	(565,871)	—	—	<u>(2,628,948)</u>
Total liabilities						<u>(2,628,948)</u>

Notes: (continued)

2. Segmental information (continued)

(a) Primary reporting format - business segments (continued)

	Six months ended 30th November, 2003					Group HK\$'000
	Timepieces HK\$'000	Jewellery HK\$'000	Leather & lifestyle	Investments HK\$'000	Eliminations HK\$'000	
			products HK\$'000			
Turnover	798,558	389,644	344,265	—	—	1,532,467
Inter-segment revenue	6,422	9,551	3,679	—	(19,652)	—
Dividend income	—	—	—	270	—	270
Segment results	59,136	51,558	16,116	1,147	—	127,957
Finance costs						(45,383)
Profit before share of profit of associated companies						82,574
Share of profit of associated companies						7,291
Profit before taxation						89,865
Taxation						(6,475)
Profit after taxation						83,390
Minority interests						(10,424)
Profit attributable to shareholders						72,966
Capital expenditure	72,441	86,137	39,000	—	—	197,578
Depreciation	11,183	6,456	8,574	—	—	26,213
Amortisation	11,662	4,543	6,400	—	—	22,605
Write-back of provision for bad debts	76	—	186	—	—	262
Bad debt expense	3,867	4,058	525	—	—	8,450
Write-back of provision for inventory	—	1,134	4,490	—	—	5,624
Provision for inventory	1,510	—	—	—	—	1,510

Notes: (continued)

2. Segmental information (continued)

(a) Primary reporting format - business segments (continued)

	As at 31st May, 2004					Group HK\$'000
	Timepieces HK\$'000	Jewellery HK\$'000	Leather & lifestyle products HK\$'000	Investments HK\$'000	Eliminations HK\$'000	
Segment assets	1,671,346	1,022,451	872,505	340,242	—	3,906,544
Interests in associated companies	130,381	(59)	319	—	—	130,641
Total assets						<u>4,037,185</u>
Segment liabilities	(1,287,847)	(590,984)	(575,122)	—	—	(2,453,953)
Total liabilities						<u>(2,453,953)</u>

(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 is attributed to the segments based on the destination of merchandise. Segment assets and capital expenditure were based on the geographical locations of the assets.

	Six months ended 30th November, 2004			As at 30th November, 2004
	Turnover HK\$'000	Segment results HK\$'000	Capital expenditure HK\$'000	Total assets HK\$'000
Europe	1,330,562	103,202	4,683	1,923,125
America	92,181	(1,435)	2,954	81,496
Asia Pacific	247,724	40,900	87,337	2,250,508
	<u>1,670,467</u>	<u>142,667</u>	<u>94,974</u>	4,255,129
Interests in associated companies				<u>137,381</u>
Total assets				<u>4,392,510</u>

Notes: (continued)

**2. Segmental information (continued)**

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

	Six months ended 30th November, 2003			As at
	Turnover	Segment results	Capital expenditure	31st May,
				2004
	HK\$'000	HK\$'000	HK\$'000	Total assets
Europe	1,174,462	91,379	191,680	1,741,421
America	90,948	(1,891)	941	69,524
Asia Pacific	267,057	38,469	4,957	2,095,599
	<u>1,532,467</u>	<u>127,957</u>	<u>197,578</u>	3,906,544
Interests in associated companies				<u>130,641</u>
Total assets				<u><u>4,037,185</u></u>

**3. Profit before taxation**

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

	Six months ended	
	30th November, 2004	30th November, 2003
	HK\$'000	HK\$'000
Crediting:		
Interest income	17,495	12,901
Exchange gain, net	19,695	—
Charging:		
Depreciation of fixed assets	21,808	26,213
Amortisation of intangible assets	23,653	22,605
Amortisation of goodwill/negative goodwill arising on acquisition of associated companies	1,640	6,155
Exchange loss, net	—	2,474
Interest expenses	28,011	35,386

Notes: (continued)

#### 4. Taxation

Taxation comprised:

	Six months ended	
	30th November, 2004	30th November, 2003
	HK\$'000	HK\$'000
Company and subsidiaries		
Current taxation:		
Hong Kong profits tax		
- Provision for current period	10,488	4,500
- Over-provision in prior periods	(6,160)	—
Overseas income tax		
- Provision for current period	2,356	3,250
- Over-provision in prior periods	(757)	(1,643)
Deferred taxation		
- Recognised during the period	2,863	—
	<u>8,790</u>	<u>6,107</u>
Share of taxation attributable to associated companies		
Hong Kong profits tax	126	368
	<u>8,916</u>	<u>6,475</u>

Hong Kong profits tax was provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit arising in or derived from Hong Kong. Overseas income tax was provided by subsidiaries and associated companies with overseas operations on their estimated assessable profits for the period at the tax rates applicable in the countries in which the subsidiaries and associated companies operated.

#### 5. Interim dividend

The Directors have resolved to declare an interim dividend of HK2.5 cents per share (2003: HK2 cents) payable on 30th March, 2005 to shareholders whose names appear on the register of members of the Company on 23rd March, 2005.

Notes: (continued)

## 6. Earnings per share

(a) Basic earnings per share

Basic earnings per share was calculated based on the consolidated profit attributable to shareholders for the period of approximately HK\$88,691,000 (2003: HK\$72,966,000) and the weighted average number of ordinary shares of approximately 1,180,528,000 (2003: 1,135,388,000) in issue during the period.

(b) Diluted earnings per share

Diluted earnings per share was calculated based on the adjusted consolidated profit attributable to shareholders for the period of approximately HK\$88,955,000 (2003: HK\$73,261,000) and the weighted average number of ordinary shares of approximately 1,298,229,000 (2003: 1,161,618,000) that would be in issue having adjusted for the effects of all dilutive potential ordinary shares issuable during the period.

(c) Reconciliation

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

	Six months ended	
	30th November, 2004	30th November, 2003
	HK\$'000	HK\$'000
Profit attributable to shareholders used in calculating basic earnings per share	88,691	72,966
Interest savings in respect of convertible bonds	264	295
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Profit attributable to shareholders used in calculating diluted earnings per share	88,955	73,261
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Notes: (continued)

**6. Earnings per share** (continued)

(c) Reconciliation (continued)

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

	<b>Six months ended</b>	
	<b>30th November, 2004</b>	<b>30th November, 2003</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	1,180,528,000	1,135,388,000
Dilutive potential effect in respect of -		
- Convertible bonds	117,692,000	26,202,000
- Share options of the Company	9,000	28,000
	<u>1,298,229,000</u>	<u>1,161,618,000</u>

**7. Fixed assets**

	<b>Property, plant and equipment</b>
	<i>HK\$'000</i>
Carrying value as at 1st June, 2004	222,366
Acquisition of subsidiaries	4,424
Additions	16,042
Exchange adjustments and disposals	10,517
Charge for the period	(21,808)
Carrying value as at 30th November, 2004	<u>231,541</u>

**8. Intangible assets**

	<i>HK\$'000</i>
Carrying value as at 1st June, 2004	438,471
Acquisition of subsidiaries	67,811
Additions	6,697
Exchange adjustments and disposals	15,155
Charge for the period	(23,653)
Carrying value as at 30th November, 2004	<u>504,481</u>

Notes: (continued)

#### 9. Investments in non-trading securities

At 30th November, 2004, the investments in non-trading securities were stated at fair value which were determined by the Directors or according to quoted market prices and the revaluation surplus of approximately HK\$7,920,000 (2003: HK\$3,375,000) was recorded in the revaluation reserve. In the opinion of the Directors, there was no indication of impairment in the carrying values of the investments.

#### 10. Accounts receivable aging analysis

The Group allows an average credit period of 30-120 days to its trade customers. Aging analysis of accounts receivable after provision for bad and doubtful debts is as follows:

	<b>As at</b> <b>30th November,</b> <b>2004</b> <i>HK\$'000</i>	<b>As at</b> <b>31st May,</b> <b>2004</b> <i>HK\$'000</i>
Current month	403,296	730,732
Between 1 to 2 months	36,879	36,663
Between 2 to 3 months	36,346	32,926
Between 3 to 4 months	26,451	25,410
Over 4 months	22,013	28,546
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	524,985	854,277
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#### 11. Accounts payable aging analysis

Aging analysis of accounts payable is as follows:

	<b>As at</b> <b>30th November,</b> <b>2004</b> <i>HK\$'000</i>	<b>As at</b> <b>31st May,</b> <b>2004</b> <i>HK\$'000</i>
Current month	223,303	199,564
Between 1 to 2 months	46,802	34,707
Between 2 to 3 months	13,127	4,900
Between 3 to 4 months	27,991	4,910
Over 4 months	9,486	6,455
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	320,709	250,536
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Notes: (continued)

## 12. Bank borrowings

(a) Short-term bank borrowings comprised:

	<b>As at 30th November, 2004</b>	<b>As at 31st May, 2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans and overdrafts	529,735	494,420
Trust receipts and import loans	229,294	145,120
	<u>759,029</u>	<u>639,540</u>

(b) Long-term bank borrowings:

	<b>As at 30th November, 2004</b>	<b>As at 31st May, 2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Repayable within a period of		
- not exceeding 1 year		
Secured	24,854	22,396
Unsecured	108,736	95,197
- more than 1 year, but not exceeding 2 years		
Secured	19,021	15,607
Unsecured	114,899	108,551
- more than 2 years, but not exceeding 5 years		
Secured	10,173	7,598
Unsecured	181,796	243,491
- after 5 years		
Secured	2,341	733
Unsecured	<u>—</u>	<u>—</u>
	461,820	493,573
Less: Amounts repayable within 1 year included under current liabilities	<u>(133,590)</u>	<u>(117,593)</u>
	<u><u>328,230</u></u>	<u><u>375,980</u></u>

Notes: (continued)

### 13. Share capital

	Number of shares	Nominal value of each share HK\$	Nominal value of shares HK\$'000
Balance as at 1st June, 2004	1,171,830,051	1.00	1,171,830
Issue upon exercise of convertible bonds	31,604,000	1.00	31,604
Balance as at 30th November, 2004	1,203,434,051	1.00	1,203,434

### 14. Reserves

	Share premium account HK\$'000	Exchange translation reserve HK\$'000	Retained profits HK\$'000	Revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	Goodwill HK\$'000	Legal reserve HK\$'000	Other reserves HK\$'000	Total HK\$'000
Balance as at 1st June, 2004	345,958	(197,276)	517,226	7,948	40,801	(454,108)	270	580	261,399
Premium arising from exercise of convertible bonds	5,820	—	—	—	—	—	—	—	5,820
Expenses incurred in connection with issue of shares	(28)	—	—	—	—	—	—	—	(28)
Share of exchange translation reserve deficit of an associated company	—	(139)	—	—	—	—	—	—	(139)
Revaluation of listed non- trading securities	—	—	—	7,920	—	—	—	—	7,920
Profit for the period ended 30th November, 2004	—	—	88,691	—	—	—	—	—	88,691
2004 final dividend	—	—	(29,846)	—	—	—	—	—	(29,846)
Interim dividend declared	—	—	(30,204)	—	—	—	—	—	(30,204)
Exchange differences arising on translation of overseas subsidiaries' financial statements	—	(4,671)	—	—	—	—	—	—	(4,671)
Balance as at 30th November, 2004	351,750	(202,086)	545,867	15,868	40,801	(454,108)	270	580	298,942

Notes: (continued)

## 15. 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"), JOOP! GmbH ("JOOP!") and Egana Information Technology Limited ("EIT") 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, 2004 (Unaudited) HK\$'000	30th November, 2003 (Unaudited) HK\$'000
Purchases from Tonic	9,861	37,557
Purchases from Kuraray group	12,161	57,394
Sales to Dominique	5,213	3,141
Services fees from EIT	—	120
Interest income from Dominique	73	83
Royalties to JOOP!	6,282	4,291

Notes:

- i. Sales and purchases of goods were determined with reference to published prices and market conditions.
  - ii. Services fees and royalties were charged according to the terms of the relevant agreements.
  - iii. Trading transactions with Kuraray group included approximately HK\$11,061,000 of purchase made by Lorica Sud s.r.l. which also constituted connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.
  - iv. Interest was charged at the commercial rate.
- (b) The Group paid approximately HK\$2,432,000 (2003: HK\$3,690,000) to International Taxation Advisory Services Limited, of which Mr. David Wai Kwong WONG, a Director of the Company, was a director, for corporate advisory services rendered. The Directors consider that the fees were paid according to prices and conditions similar to those offered by other external consultants of the Group.

Notes: (continued)

#### 16. Contingent liabilities

Contingent liabilities not provided for by the Group were summarised below:

	<b>As at 30th November, 2004</b>	<b>As at 31st May, 2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Discounted bills with recourse	128,180	53,196
Guarantees given to landlords in respect of rental obligations of group companies	124	114
Guarantees given to customs in respect of default in customs obligations of group companies	313	656
	<u>313</u>	<u>656</u>

#### 17. Subsequent events

On 28th January, 2005, the Company entered into a loan agreement with a syndicate of banks for a three-year revolving credit and term loan facility amounting to HK\$300,000,000 to refinance the existing HK\$240,000,000 syndication loan and to finance the Company's general working capital requirements.

## **BUSINESS REVIEW AND PROSPECTS**

The 5-year growth plan has been implemented as scheduled as evident by an encouraging 9% growth in turnover, 25% increment in after tax earnings and 22% rise in distributable profits.

In Europe, the Exhibition Centre at our European Headquarters, at Offenbach, Frankfurt Germany hosted the first ever Egana Autumn Fair in September 2004, which attracted customers from our existing coverage in Western Europe, as well as new customers from Eastern Block. There reflected a 13% increase in revenue from Europe.

Also, the European Technology & Logistic Center at Frankfurt, Germany has been in place on a timely manner to enlarge the logistics efficiency and faster order fulfillment benefits pursuant to the extension of 12 countries to 25 countries within European community effective 2004. This translates into 1.3% savings on European sales in logistics cost. During the 6-month period in 2004, Europe contributed 79% of Group's turnover, similar to pattern with that in 2003.

In collaboration with our partners in China, the progress is satisfactory. The new collections of various brandnames were very well received and should materialize in new orders during and after the Basel Fair, which is the largest and most important watch and jewellery fair in the world. In the 6 months to November 2004, Asia recorded HK\$248 million turnover similar to that in 2003.

The successful entry of Goldpfeil into the Japanese market enables the Group to introduce the branded watches, jewellery and leather products under affordable luxury and fashion & sports segments of our Brand Pyramid to the points-of-sales which welcome the Company's "one-stop-shop" customer satisfaction approach. This waves positively into Taiwan, and China. In December 2004, the Group entered into franchising agreements to open Goldpfeil/Comtesse stores in Beijing and Shanghai. Further discussion with franchisees for other cities in China is in progress. In Taiwan, it has now established a strong network of 12 Goldpfeil shops along a gradual increase of the brand awareness in Asia.

On the watch segment, Junghans Systems (transponder) watch and radio controlled timepieces are developing with encouraging response, setting the trend in the industry. PUMA timewear, our latest licence acquisition, will be ready for launch in the third quarter of 2005.

Carrera steel jewellery recently introduced in complement of the Carrera watches, is expected to be well received in Asia, echoing its success in the European market.

Based on this positive development and the global economic recovery underway, we are hopeful that the Group's annual revenue share from our Asian market for FY04/05 would exceed 20%, targeting the 30% revenue split threshold in the 5-year plan.

## **BUSINESS REVIEW AND PROSPECTS** *(continued)*

With the gradual development of branded goods, the in-house production has increased, which results in lesser bought-in-finished goods. This enhancement of product mix enriches the gross margin to 42%, a 4% basis point upsurge as compared to FY03/04.

This enables the Group to reserve further resources for communications program and marketing activities for enhancing the brand awareness and gaining further network coverage.

In the US which recorded HK\$92 million revenue during the period, our focus differentiation approach towards the upscale and luxury fashion accessories segment is bringing positive results. The exhibition in the Phoenix Jewellery Show in January 2005 attracted strong customer interest towards the Group's extended jewel range, and the platinum jewellery collection.

The Group in its production facilities (G&W) in Germany has developed certain advanced platinum jewellery production process, and is in partnership with the Platinum Guild to launch internationally during the Basel Fair a platinum jewellery collection which is expected to have particularly good reception in the US and China markets, in addition to the European segment.

The Group's leather and footwear business has encouraging potential for extending into the US through related diversification from the Group's watch and jewellery activities currently undertaken in the US.

The Company is pursuing strategic alliance possibility to achieve further growth of our business in the US. It is believed that with the Group's well established fashion accessories product development and production facilities network (7 in Europe, 7 in Asia), a well balanced portfolio of brands with international recognition, and our pioneer experience in co-branding approach, we are well posed to be in partnership with strong retail network and/or chain stores to jointly expand the US business, with a view to achieving 20% revenue share in 5-year time.

In January 2005, the Group secured a 3-year HK\$300 million syndication loan, HK\$240 million of which would be applied to repay the existing HK\$240 million syndication loan, with the balance for general working capital, which is in line with the Group's policy of matching medium term funding requirements by medium term finance.

The Group continues to practice its core values of "Caring, Integrity and Fairness" to strive for being a leader and one of the most respected multi-brand fashion accessory groups focusing on customer service superiority for the benefit of our stakeholders.

## MANAGEMENT DISCUSSIONS AND ANALYSIS

Group turnover for the 6 months to November 2004 reached HK\$1,670 million, an encouraging 9% increase, which was represented by 5% increment in timepiece division; 8% in jewellery sector and 19% in the leather business, as compared to the same period in 2003.

During the period, timepiece accounted for 50%, jewellery at 25% and leather at 25% of Group's turnover.

With successful opening up of certain new markets in Europe (including Russia, Poland, Croatia, Turkey) and in Asia (including China, Taiwan, Singapore), the Group is increasing the portion of product mix from bought-in-finished goods to in-house produced items. As a result, the gross margin reached 42%, a 4% upsurge from the 38% threshold for the year ended 31st May, 2004.

To launch branded products in new markets and to gain further market share in existing coverage, the Group has increased the communication program outlays during the period, by 2% to sales. Distribution cost is at 20% to sales (18% for November 2003).

Thanks to the enhanced logistics efficiency and inventory control due to the European Technology & Logistic Center in Germany, there continuously reflects 1.3% savings in logistics and order fulfillment expenses in Europe, which is translated to an overall 1% administrative expenses savings to the Group (15% for November 2004 versus 16% for FY03/04).

The profit from operations (EBITDA) margin reached 11%, 2% basis point increment from the 9% level for FY03/04, as a result of our commitment in continuous improvement in operations' effectiveness and efficiency.

Profit attributable to shareholders amounted to HK\$89 million, and represented a promising increase of 22% over the same period in 2003.

The annualized inventory turnover for the 6 months to November 2004 is similar to that in the prior year, at 177 days. The annualized debtors turnover for November 2004 period is similar to that in 2003, at 75 days. These are attributable to our ongoing focus in inventory control and tight credit policy.

The finance cost to sales ratio for 2004 is similar to that in 2003, at 2.5% range, which represents a healthy level, demonstrating that the Group has practiced a prudent treasury model to contain the borrowing cost to an acceptable level, thereby minimizing any adverse effect that may arise due to interest rate increase.

The current ratio is 1.6x, well ahead of the industry norm of 1x, reflecting a strong working capital platform to support the continuous growth of the business.

## **MANAGEMENT DISCUSSIONS AND ANALYSIS** *(continued)*

The leverage ratio (net borrowing to shareholders' funds) was 0.50x, as compared to 0.62x for the year ended 31st May, 2004, and the industry norm of 1x. This adds confidence to the management that the current multi-brand business approach and financing model (of matching capital expenditure by equity funds) are both making positive contribution for the long term growth.

During the period, the Group has set aside internal resources of HK\$300 million for financing appropriate strategic acquisitions and alliance for furtherance of business growth. This represents 7% of the Group's total assets of HK\$4,393 million, in line with our business model of a balanced mix of "organic growth and strategic alliance" to target for continuous business expansion.

The shareholders' funds stood at HK\$1,533 million, which is translated into an average annualized 12% returns on shareholders' funds for the period, up from 10% for FY03/04.

The Group practices natural hedging to the extent possible and currency hedging as far as is reasonably practicable. Hence, the foreign currency exposure against adverse exchange movements has been adequately contained.

Currently, the confirmed orders on hand covering 6-month worth of shipments are at a higher level than last year.

The Group had no significant capital commitments as at 30th November, 2004 and there are no contingent liabilities or off balance sheet obligations other than trade bills discounted in the ordinary course of business.

### **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from 21st March, 2005 to 23rd March, 2005, both days inclusive, during which period no transfer of shares of the Company will be recorded.



## **DISCLOSURE UNDER RULE 13.18 OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “LISTING RULES”)**

### **Loan facility with covenants relating to specific performance of the controlling shareholder**

#### 1. HK\$240 million transferable loan facility (“HK\$240 Million Loan Facility”)

The Company has been granted a four-year transferable loan facility amounting to HK\$240,000,000 in September 2003 which required that:

- i) Mr. Hans-Joerg SEEBERGER (“Mr. SEEBERGER”), the controlling shareholder of the Company, continues to be the Chairman of the Group and control the day-to-day management of the Group; and
- ii) Mr. SEEBERGER and his associates (as defined in the Listing Rules) continues to own beneficially, directly or indirectly at least 30% of the total issued share capital of the Company and be the single largest shareholder of the Company and do not sell, transfer, encumber or otherwise dispose of all or part of the shareholdings in the Company to any financial institution or other third party for financing purposes.

A breach of any of the above conditions will constitute an event of default under the HK\$240 Million Loan Facility. If such an event of default occurs, all amounts outstanding under this Facility may become immediately due and payable.

#### 2. HK\$300 million revolving credit and term loan facility (“HK\$300 Million Loan Facility”)

The Company has been granted a three-year revolving credit and term loan facility amounting to HK\$300,000,000 in January 2005 which required that:

- i) Mr. SEEBERGER continues to be the Chairman of the Group and control the day-to-day management of the Group; and
- ii) Mr. SEEBERGER and his associates (as defined in the Listing Rules) continues to own beneficially, directly or indirectly, at least 30% of the total issued share capital of the Company and be the single largest shareholder of the Company and do not sell, transfer, encumber or otherwise dispose of all or part of the shareholdings in the Company to any financial institution or other third party for financing purposes.

A breach of any of the above conditions will constitute an event of default under the HK\$300 Million Loan Facility. If such an event of default occurs, all amounts outstanding, including the accrued interest and all other sums payable, under this Facility may become immediately due and payable.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30th November, 2004, the interests and short positions of the Directors and chief executive in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register maintained by the Company under section 352 of the SFO or as notified to the Company were as follows:

### The Company

	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total Interests	Total Interests as % of the issued share capital	Underlying shares (share options)	Total Interests (including underlying shares) as % of the issued share capital
<b>Number of shares of HK\$1.00 each in the Company</b>								
Hans-Joerg SEEBERGER	—	—	—	470,592,553 <i>(Note i)</i>	470,592,553	39.10%	12,000,000 <i>(Note i)</i>	40.10%
Peter Ka Yue LEE	530,291	—	8,191,773 <i>(Note ii)</i>	—	8,722,064	0.72%	500,000 <i>(Note ii)</i>	0.77%
Michael Richard POIX	2,884,666	—	—	—	2,884,666	0.24%	500,000 <i>(Note iii)</i>	0.28%
Ho Yin CHIK	18,464	—	—	—	18,464	0%	144,800 <i>(Note iv)</i>	0.01%
Professor Udo GLITTENBERG	115,200	—	—	—	115,200	0.01%	—	0.01%
Dr. Goetz Reiner WESTERMEYER	288,000	—	—	—	288,000	0.02%	—	0.02%

#### Notes:

- i. 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 Mr. SEEBERGER and his family. The options, exercisable at HK\$2.11 per share, were granted pursuant to the Company's Executive Share Option Scheme.
- ii. These shares were beneficially owned by Joshua Limited, a company which was wholly and beneficially owned by Mr. Peter Ka Yue LEE. The options, exercisable at HK\$2.11 per share, were granted pursuant to the Company's Executive Share Option Scheme.

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

Notes: (continued)

- iii. The options, exercisable at HK\$2.11 per share, were granted pursuant to the Company's Executive Share Option Scheme.
- iv. The options, exercisable at HK\$3.45 per share, were granted pursuant to the Company's Executive Share Option Scheme.
- v. All the interests stated above represent long position.

### Associated Corporations

#### Egana Jewellery & Pearls Limited ("Egana Jewellery")

	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total Interests	Total Interests as % of the issued share capital	Underlying shares (share options)	Total Interests (including underlying shares) as % of the issued share capital
<b>Number of shares of HK\$0.50 each in Egana Jewellery</b>								
Hans-Joerg SEEBERGER	—	—	—	247,166,099 (Note i)	247,166,099	64.88%	3,300,000 (Note iii)	65.74%
Peter Ka Yue LEE	73,651	—	1,114,838 (Note ii)	—	1,188,489	0.31%	250,000 (Note iii)	0.38%
Michael Richard POIX	373,398	—	—	—	373,398	0.10%	250,000 (Note iii)	0.16%
Ho Yin CHIK	2,160	—	—	—	2,160	0%	—	0%

Notes:

- i. 1,044,955 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 Mr. SEEBERGER and his family. 246,121,144 shares were registered in the name of the Company and its nominee. By virtue of his interest in the Company and the Captive Insurance Trust under the SFO, Mr. SEEBERGER was deemed to be interested in these shares.
- ii. These shares were beneficially owned by Joshua Limited, a company which was wholly and beneficially owned by Mr. Peter Ka Yue LEE.
- iii. The options, exercisable at HK\$2.24 per share, were granted pursuant to Egana Jewellery's Executive Share Option Scheme.
- iv. All the interests stated above represent long position.

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

**Associated Corporations** *(continued)*

**Tonic Industries Holdings Limited ("Tonic")**

	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total Interests	Total Interests as % of the issued share capital	Underlying shares (share options)	Total Interests (including underlying shares) as % of the issued share capital
<b>Number of shares of HK\$0.10 each in Tonic</b>								
Hans-Joerg SEEBERGER	—	—	—	129,602,869 <i>(Note i)</i>	129,602,869	20.40%	—	20.40%
Peter Ka Yue LEE	—	—	—	—	—	—	1,810,000 <i>(Note ii)</i>	0.28%

*Notes:*

- i. The shares were held by wholly-owned subsidiaries of the Company. By virtue of his interest in the Company as disclosed above, Mr. SEEBERGER was deemed to be interested in these shares and disclosed the same under the SFO.
- ii. The options, exercisable at HK\$0.70 per share, were granted pursuant to the Tonic's share option scheme.
- iii. All the interests stated above represent long position.

Certain Directors held certain nominee shares in subsidiaries in trust for the Company or its subsidiaries as at 30th November, 2004.

Save as disclosed above, as at 30th November, 2004, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations within the meaning of Part XV of the SFO which were required to be notified to The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which are required to be entered in the register under section 352 of the SFO.

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

As at 30th November, 2004, the following person, other than the Directors or chief executive of the Company, held an interest in the shares or underlying shares of the Company as recorded in the register maintained by the Company under section 336 of the SFO:

	Corporate Interests	Total Interests	Total Interests as % of the issued share capital	Underlying shares (including convertible bonds)	Total Interests (including underlying shares) as % of the issued share capital
<b>Number of shares of HK\$1.00 each in the Company</b>					
Credit Suisse Group (Notes i)	11,995,733 (Notes ii)	11,995,733 (Notes ii)	1.00%	120,156,975	10.98%

Notes:

- i. These shares were beneficially held by Credit Suisse Group.
- ii. 2,504,041 shares represent short position and 9,491,692 shares represent long position.

Save as disclosed above, as at 30th November, 2004, the Company had not been notified by any other persons (other than the Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register maintained by the Company under section 336 of the SFO.

## SHARE OPTION SCHEME

### The Company

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

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

Directors	Number of shares comprising the options outstanding at the beginning of the period	Number of options lapsed	Number of shares comprising the options outstanding at the end of the period	Date granted	Subscription price per share HK\$
Hans-Joerg SEEBERGER	12,000,000	—	12,000,000	09/01/2000	2.11
Peter Ka Yue LEE	500,000	—	500,000	09/01/2000	2.11
Michael Richard POIX	500,000	—	500,000	17/01/2000	2.11
Ho Yin CHIK	144,800	—	144,800	23/03/1997	3.45
Employees under continuous contracts (excluding Directors)	32,084,400	250,000	31,834,400	28/01/1997 to 25/02/2000	*
	45,229,200	250,000	44,979,200		

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

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

No options were granted, exercised or cancelled during the period.

## SHARE OPTION SCHEME (continued)

### Egana Jewellery

Share options are granted to the Directors, executives and employees under the Executive Share Option Scheme of Egana Jewellery adopted on 26th June, 1998 and became unconditional on 23rd July, 1998 (the "Egana Jewellery Scheme").

The following shows the particulars of the share options of Egana Jewellery granted to the Directors, executives and employees of Egana Jewellery Group that are required to be Disclosed pursuant to Rule 17.07 of Chapter 17 and sub-paragraph 13(1) of Appendix 16 of the Listing Rules during the period:

Directors	Number of shares comprising the options outstanding at the beginning of the period	Number of options lapsed	Number of shares comprising the options outstanding at the end of the period	Date granted	Subscription price per share HK\$
Hans-Joerg SEEBERGER	3,300,000	—	3,300,000	09/01/2000	2.24
Peter Ka Yue LEE	250,000	—	250,000	09/01/2000	2.24
Michael Richard POIX	250,000	—	250,000	17/01/2000	2.24
Employees under continuous contracts (excluding Directors)	9,325,000	250,000	9,075,000	07/01/2000 to 31/01/2000	2.24
	<u>13,125,000</u>	<u>250,000</u>	<u>12,875,000</u>		

*Note:* The outstanding options can be exercised in accordance with the Egana Jewellery Scheme at any time after the date upon which the options are granted but not later than 10 years from the date on which the Egana Jewellery Scheme was adopted, provided that up to 20%, 40%, 60% and 80% of the original numbers of shares comprising the options can be exercised in the 1st, 2nd, 3rd and 4th year from the date granted, respectively.

No options of Egana Jewellery were granted, exercised or cancelled during the period.

Save as disclosed above, no right to subscribe for the securities of the Company or its associated corporations within the meaning of the SFO, has been granted by the Company to, nor have any such rights been exercised by, any persons during the period.

### EMPLOYEES AND REMUNERATION POLICIES

As at 30th November, 2004, the Company and its subsidiaries employed approximately 6,000 employees. Remuneration is determined by reference to their qualifications and experiences of the employees concerned. The Group has set up a performance evaluation policy and will award those employees with outstanding performance.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its securities (whether on the Stock Exchange or otherwise) during the period ended 30th November, 2004.

## **CODE OF BEST PRACTICE**

Except that the Independent Non-Executive Directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at annual general meetings of the Company, the Company was in compliance with the Code of Best Practice as set out in old Appendix 14 of the Listing Rules throughout the period.

As to the new Appendix 14 (Code on Corporate Governance Practices) of the Listing Rules, the Directors will adopt the principles set out therein. A Remuneration Committee comprising all Independent Non-Executive Directors and Mr. David Wai Kwong WONG, a Director, was duly established on 31st January, 2005. A detailed Corporate Governance Report will be prepared and disclosed in the Company's 2005 Annual Report.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed with management regarding auditing, internal control and financial reporting matters including the review of the Company's unaudited interim financial results for the six months ended 30th November, 2004.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

During the period, the Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code (Appendix 10) of the Listing Rules.

The Board of Directors of the Company did not aware of any non-compliance by any Directors of the Company regarding the required standard set out in the Model Code and its code of conduct regarding securities transactions.

## **APPRECIATION**

On behalf of the Directors, I would like to extend our gratitude and sincere appreciation to our colleagues for their hard work and dedication and the Company's shareholders for their support.

On behalf of the Board  
**Hans-Joerg SEEBERGER**  
*Chairman and Chief Executive*

Hong Kong, 17th February, 2005