

REPORT OF THE DIRECTORS

The Directors have the pleasure to submit their report together with the audited accounts of EganaGoldpfeil (Holdings) Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ended 31st May, 2005.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

An analysis of the Group’s turnover and segment information for the year by business and geographical segments is set out in Note 3 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 115.

The Directors have declared an interim dividend of HK2.50 cents (2004: HK2.00 cents) per share, totaling approximately HK\$30,830,000 (2004: HK\$23,407,000), which was fully paid on 30th March, 2005.

The Directors recommend the payment of a final dividend of HK3.50 cents (2004: HK2.50 cents) per share to shareholders whose names appear on the register of members of the Company on 16th November, 2005, totaling approximately HK\$44,595,000 (2004: HK\$29,427,000). Together with the interim dividend, total dividends for the year ended 31st May, 2005 amounted to approximately HK\$75,425,000 (2004: HK\$52,834,000).

FINANCIAL REVIEW

The Group’s annual revenue surpassed HK\$3.7 billion, which is attributable to an organic growth in the branded business (pursuant to a gradual shift from bought-in-finished goods business to branded products following a deeper penetration of the new markets in the Greater China and Eastern Europe) of 11%, and the addition of two-month sales income of HK\$250 million from Salamander operations acquired on 31st March, 2005.

Geographically, 74% of revenue came from Europe, 4% from the US and 22% from Asia-Pacific (69%, 4% and 27% in FY04).

Timepieces contributed 47% to the Group’s revenue, with jewellery and leather/lifestyle division at 23% and 30% respectively. The revenue split for business segment in FY05 is demonstrated as 73% for branded products and 27% by private label (bought-in-finished goods) business (67% and 33% in FY04 respectively).

70% of our branded products is produced in-house under our production facility network in Europe (8) and Asia (7) for global product development and production, which supports 80% of Group’s revenue.

Gross margin increased by 3% basis point from 38% in FY04 to 41% in FY05, thanks to better products mixture and production efficiency.

REPORT OF THE DIRECTORS

FINANCIAL REVIEW *(Cont'd)*

The distribution cost to sales was 21.8%, similar in range to that in FY04 of 20%. The Group has established a proven communication and promotion program as well as a co-ordinated sales administration model which brings positive results to the Group's branding, marketing and sales activities.

Due to the continuous logistics efficiency enhancement pursuant to the European Technology & Logistic Center in Frankfurt, Germany, the administration expenses to sales was reduced from 15.5% to 14.9% in FY05.

The finance cost for FY05 was in similar range to FY04's being at HK\$93.5 million and HK\$91.8 million respectively, evidencing the Group's prudent treasury policy of financial control.

The operating profit margin reached 8.6%, up by 2.1% from FY04's 6.5%.

Our revenue and assets were denominated in Euro and Swiss Francs 70%; US\$ and HK\$ 24% and other 6%. Payments and liabilities were in Euro and Swiss Francs 49%; US\$ and HK\$ 47% and other 4%.

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.

Distributable earnings attributable to shareholders was HK\$211 million, a promising 48.5% increment over FY04's, showing a net margin of 5.7% up from 4% in FY04 by 1.7%.

Net profit after minority interests increase of HK\$26 million was due to the cessation of amortization on goodwill and trademark which would otherwise be required if there were not the new accounting principle being applied in this year. Adjusting this factor, the Group achieved an encouraging 30% net profit increment pursuant to our operating efficiency and defined business strategies which managed to make positive contribution.

As a result, this translated into a positive operating cash inflow to the Group, with an increase in cash and cash equivalents of HK\$250 million, reaching HK\$812.9 million.

The shareholders' funds stood at HK\$1,748.4 million, showing a continuous double digit growth (22%).

Total assets exceeded HK\$4.9 billion (as compared to HK\$4 billion in FY04). This is yet to include the value of the brand portfolio of the Group which is reckoned to be in the range of HK\$5.5 billion — a valuable off-balance sheet of the Group.

Working capital was HK\$737.7 million and the current ratio stood at 1.34x (well ahead of the industry average of 1x). This provides a viable base for the Group to plan its financial resources in a more cost-effective manner, and with higher certainty in securing funds to cope with the business expansion.

The debtor turnover was at 64 days (as compared to the industry norm of 120 days), and the inventory turnover was at 171 days (again compared favorably with the market threshold of 210 days). These are attributable to the Group's tight credit control policy and ongoing inventory control measures.

REPORT OF THE DIRECTORS

FINANCIAL REVIEW *(Cont'd)*

As we completed the Salamander acquisition on 31st March, 2005, there only recorded 2-month cost of sales in the financial statements for FY05, and yet the whole year inventory was included in the balance sheet, the effective inventory turnover days of the Group would be in 140 days range.

Due to the Group's commitment to sound financial model (of applying medium term funds and equity-linked resources for capital investment with debts for working capital), the net gearing ratio (net debt to shareholders' funds) was maintained at 0.53x, ahead of FY04 of 0.62x which is well within the industry yardstick of 1 time.

The leverage (Net debt to EBITDA) was at 2.8x, an improvement from 3.2x in FY04, demonstrating the Group's sound commitment to enhance its financial position to leverage the borrowings in an optimal manner, which sets a firm base preparing for its business growth and capital investment going forward.

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 commitment as at 31st May, 2005. There are no material contingent liabilities or off balance sheet obligations other than trade bills discounted in the ordinary course of business as reflected in the accounts.

The return of shareholders' funds exceeded 12.1%, targeting to surpass 18% as a 5-year target, for a double digit growth in shareholders' funds for the benefit of our shareholders.

Under the new HKFRS 3 "Business Combinations", there has been a change in accounting practice that negative goodwill on acquisition of subsidiaries including Salamander (HK\$31 million) is immediately recognized as gain on acquisition of subsidiaries under other revenue, instead of being released to profit and loss account for amortization over a certain period of time under prior practice. On the other hand, there was a loss due to the dilution of shareholding interests in Egana Jewellery & Pearls Limited, a subsidiary of the Company, of HK\$30.5 million which was charged to administration expenses in the profit & loss account in FY05.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in Note 29 to the accounts.

Under the Companies Law of the Cayman Islands, share premium of the Company is available for distributions or payment of dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or payment of dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, no dividend shall be paid other than out of retained profits of the Company or the amount held in any share premium account. As at 31st May, 2005, the Company's share premium amounted to approximately HK\$363,311,000 (2004: HK\$345,958,000) while its retained profits amounted to approximately HK\$47,741,000 (2004: HK\$34,502,000).

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately HK\$434,000 (2004: HK\$220,000).

REPORT OF THE DIRECTORS

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in Note 13 to the accounts.

SHARE CAPITAL

Details of movements in share capital of the Company are set out in Note 28 to the accounts.

CONVERTIBLE BONDS

Details of the terms of the convertible bonds of the Group are set out in Note 26 to the accounts.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

BANK BORROWINGS

Particulars of bank borrowings as at 31st May, 2005 are set out in Notes 24 and 25(a) to the accounts. There was no interest capitalised by the Group during the year.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Particulars of the Company's subsidiaries and associated companies at 31st May, 2005 are set out in Notes 16 and 17 to the accounts respectively.

SHARE OPTION SCHEME

The Company

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

- | | |
|---|--|
| 1. Purpose of the Scheme | As an incentive to executive management and employees. |
| 2. Participants of the Scheme | Eligible full-time employees including the Executive Directors of the Company and its subsidiaries. |
| 3. Total number of Shares available for issue under the Scheme and the percentage of issued share capital at 14th September, 2005 | 44,979,200 Shares, representing approximately 3.53% of the issued share capital of the Company as at the date of this Annual Report. |
| 4. Maximum entitlement of each participant under the Scheme | 25% of the aggregate number of shares issued and issuable under the Scheme. |
| 5. The period within which Shares must be taken up under an option | Within a maximum period of 10 years commencing from the date of grant of such options. |

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Cont'd)

The Company (Cont'd)

6. The minimum period for which an option must be held before it can be exercised and the percentage of the Shares comprising the options that can be exercised during the period
- Year 1: up to 20% of Shares comprised in the options at their dates of grant (or if applicable as subsequently adjusted in accordance with the Scheme);
- Year 2: up to 40% of Shares so comprised, less the percentage of shares in respect of which the options were exercised in Year 1;
- Year 3: up to 60% of Shares so comprised, less the percentage of shares in respect of which the options were exercised in Years 1 and 2;
- Year 4: up to 80% of Shares so comprised, less the percentage of shares in respect of which the options were exercised in Years 1, 2 and 3; and
- Year 5: all Shares so comprised in respect of which the options were to 10 not previously exercised.
(inclusive)
7. The amount payable on acceptance of the options
- Nominal amount of HK\$1.00 upon acceptance of the options.
8. The basis of determining the exercise price
- The exercise price is the higher of:
- (a) 85% of the average of closing prices of shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") of five business days immediately preceding the date of offer to grant the options; and
- (b) the nominal value thereof.
9. The remaining life of the Scheme
- The Scheme expired on 31st May, 2003 but the options granted during the tenure of the Scheme shall remain exercisable within 10 years from the date on which the options were granted.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Cont'd)

The Company (Cont'd)

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 subparagraph 13(1) of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the year:

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

* 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 year.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Cont'd)

Egana Jewellery & Pearls Limited ("Egana Jewellery")

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

- | | | |
|----|--|--|
| 1. | Purpose of the Egana Jewellery Scheme | As an incentive to executive management and employees. |
| 2. | Participants of the Egana Jewellery Scheme | Eligible full-time employees including the executive directors of Egana Jewellery and its subsidiaries. |
| 3. | Total number of shares of Egana Jewellery available for issue under the Egana Jewellery Scheme and the percentage of issued share capital at 14th September, 2005 | 12,875,000 shares, representing approximately 3.02% of the issued share capital of Egana Jewellery as at the date of this Annual Report. |
| 4. | Maximum entitlement of each participant under the Egana Jewellery Scheme | 25% of the aggregate number of shares issued and issuable under the Egana Jewellery Scheme. |
| 5. | The period within which shares must be taken up under an option | Within a maximum period of 10 years commencing from the date of grant of such options and ending on the date of expiry of the Egana Jewellery Scheme. |
| 6. | The minimum period for which an option must be held before it can be exercised and the percentage of the shares comprising the options that can be exercised during the period | <p>Year 1: up to 20% of shares comprised in the options at their dates of grant (or if applicable as subsequently adjusted in accordance with the Egana Jewellery Scheme);</p> <p>Year 2: up to 40% of shares so comprised, less the percentage of shares in respect of which the options were exercised in Year 1;</p> <p>Year 3: up to 60% of shares so comprised, less the percentage of shares in respect of which the options were exercised in Years 1 and 2;</p> <p>Year 4: up to 80% of shares so comprised, less the percentage of shares in respect of which the options were exercised in Years 1, 2 and 3; and</p> <p>Year 5: all shares so comprised in respect of which the options to 10 were not previously exercised.
(inclusive)</p> |
| 7. | The amount payable on acceptance of the options | Nominal amount of HK\$1.00 upon acceptance of the options. |

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Cont'd)

Egana Jewellery & Pearls Limited ("Egana Jewellery") (Cont'd)

8. The basis of determining the exercise price The exercise price is the higher of:
- (a) 85% of the average of closing prices of shares of Egana Jewellery on the Stock Exchange of five business days immediately preceding the date of offer to grant the options; and
 - (b) the nominal value.
9. The remaining life of the Egana Jewellery Scheme The Egana Jewellery Scheme will expire on 23rd July, 2008.

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

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 year:

Directors	Number of shares comprising the options outstanding at the beginning of the year	Number of options lapsed	Number of shares comprising the options outstanding at the end of the year	Date granted	Subscription price per share HK\$
Hans-Joerg SEEBERGER	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 number 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 year.

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

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors

Hans-Joerg SEEBERGER (*Chairman and Chief Executive*)

Peter Ka Yue LEE

Michael Richard POIX

Ho Yin CHIK

David Wai Kwong WONG

(re-designated from a Non-Executive Director to an Executive Director on 4th January, 2005)

Independent Non-Executive Directors

Professor Udo GLITTENBERG

Dr. Götz Reiner WESTERMEYER

Andy Yick Man NG

(appointed on 1st June, 2004)

In accordance with Article 92 of the Company's Articles of Association, Mr. Peter Ka Yue LEE and Mr. Michael Richard POIX will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

The Company has received the confirmation of independence in respect of the year ended 31st May, 2005 from each of the Independent Non-Executive Directors pursuant to Rule 3.13 of the Listing Rules. As at the date of this report, the Company still considers all Independent Non-Executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

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

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

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

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

Mr. David Wai Kwong WONG has entered into a service agreement with the Company for a term of three years commencing 1st January, 2005 until 31st December, 2007.

Save as disclosed above, none of the Directors has a service contract for a duration exceeds three years or has a service contract which can be terminated by giving a period of notice of more than one year or to pay compensation or make other payments equivalent to more than one year's emoluments.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Hans-Joerg SEEBERGER (“Mr. Seeberger”), aged 62, is the founder of the Group, Chairman and Chief Executive of the Company. He is also the Chairman and Chief Executive of Egana Jewellery. He has more than 24 years’ experience in the timepiece, jewellery and leather business in Asia and Europe. He is responsible for the Group’s overall corporate policy and development strategy as well as overseeing the Group’s operations worldwide, particularly the financial and marketing aspects.

Mr. Peter Ka Yue LEE (“Mr. Lee”), aged 58, joined the Group in 1978 and has been an Executive Director of the Company since December 1990. Mr. Lee also serves as an Executive Director of Egana Jewellery. He is responsible for the financial and general management of the Group’s Hong Kong operation. Before joining the Group, he worked as an executive in marketing and corporate management in several international companies in the consumer and manufacturing industries. Mr. Lee is also an Executive Director of Tonic Industries Holdings Limited and a director of The Hong Kong Watch Manufacturers Association Limited. Recently, Mr. Lee was awarded with the Honorary Associate from the Hong Kong Baptist University in recognition of his contribution to the community.

Mr. Michael Richard POIX (“Mr. Poix”), aged 53, joined the Group in October 1988 and has been an Executive Director of the Company since January 1992. Mr. Poix also serves as an Executive Director of Egana Jewellery. He is responsible for the day-to-day operations of the Group’s business and ensuring compliance with the Group’s obligations under its brandname Licences. Mr. Poix previously worked with a large German mail order house, a large German department store organisation as a foreign trader in their trade departments and a retail company in Germany as the head of the purchasing department for watches, jewellery and electronics.

Ho Yin CHIK (“Mr. Chik”), aged 50, joined the Group in 1985 and has been an Executive Director of the Company since November 2003. He is also an Executive Director of Egana Jewellery. Mr. Chik is the Group Treasurer and is responsible for the financial and treasury operations of the Group. He has over 21 years’ experience in auditing, financial and treasury fields. He is a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant. Mr. Chik also holds a Degree of Bachelor of Commerce from the University of Southern Queensland.

Mr. David Wai Kwong WONG (“Mr. Wong”), aged 47, was re-designated from a Non-Executive Director to an Executive Director of the Company with effect from 4th January, 2005. Mr. Wong also serves as an Executive Director of Egana Jewellery and Incutech Investments Limited. He has over 25 years’ experience in finance, accounting, corporate and taxation affairs. He is a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant. Recently, Mr. Wong was awarded with the Honorary Associate from the Hong Kong Baptist University in recognition of his contribution to the community. Prior to the re-designation, Mr. Wong has been a Non-Executive Director of the Company since July 1992. Mr. Wong is currently a Non-Executive Director of Tonic Industries Holdings Limited and an Independent Non-Executive Director of seven other listed companies in Hong Kong namely Cardlink Technology Group Limited, The Cross-Harbour (Holdings) Limited, Qualipak International Holdings Limited, UBA Investments Limited, Upbest Group Limited, Y. T. Realty Group Limited and Yugang International Limited.

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(Cont'd)*

Independent Non-Executive Directors

Professor Udo GLITTENBERG, aged 61, has been an Independent Non-Executive Director of the Company since July 1992. He is a professor in business administration, having studied in the United States and Europe. Before establishing two private business schools in Germany, he was the chief executive of a steel and plastics manufacturing group and a team leader in a Chinese-German government co-operation project in Shanghai, the People's Republic of China.

Dr. Götz Reiner WESTERMEYER, aged 64, has been an Independent Non-Executive Director of the Company since July 1992. He was previously the managing director of a major Japanese consumer electronics company based in Düsseldorf, Germany, for over 14 years, and had worked as an executive in charge of the consumer electronics division of a major conglomerate headquartered in Turkey. He is currently the executive of a German organisation representing certain interests from the Eastern Europe for consumer electronics products. He obtained his doctorate in joint venture management from Munich University. He has extensive experience in the import and distribution of consumer electronic products and other consumer products throughout Europe.

Mr. Andy Yick Man NG ("Mr. Ng"), aged 48, has been an Independent Non-Executive Director of the Company since June 2004. He was appointed as an Independent Non-Executive Director of Egana Jewellery on 13th July, 2005. Mr. Ng is also an Independent Non-Executive Director of Incutech Investments Limited. He has over 23 years' experience in the fields of finance, accounting, taxation and corporate governance. He is currently Teaching Fellow of the Faculty of Business Administration of The Chinese University of Hong Kong and is a fellow member of The Hong Kong Institute of Certified Public Accountants, The Taxation Institute of Hong Kong and CPA Australia.

Senior Management

Michael BOMMERS, aged 50, is the Managing Director of EganaGoldpfeil Europe (Holdings) GmbH. He is responsible for overseeing the financial reporting functions and the development of the Group's activities in Europe. He is also an Executive Director of Egana Jewellery. He joined the Group in 1994.

Dr. Norbert BREUER, aged 54, is the Chief Executive Officer of Salamander GmbH. He is responsible for marketing, sales, PR, IT, law and lease management. He has been with Salamander since June 2004.

Jürgen HOLZSCHUH, aged 39, is the Finance Director of EganaGoldpfeil Europe (Holdings) GmbH. He is responsible for overseeing the finance and management of the Group's Europe subsidiaries. He is also the Managing Director of Salamander GmbH.

Heinz W. PFEIFER ("Mr. Pfeifer"), aged 57, Chief Delegate of the Company. He is responsible for the strategic development of the luxury watch business. He has many years of experience in the watch industry. Mr. Pfeifer joined the Group in the beginning of 2005.

Christian RASP, aged 38, is the Group Deputy Executive Director, responsible for the Hong Kong and the Greater China business operations. Before working in Hong Kong, he oversaw the Group's European business and corporate development. He joined the Group in 1999.

REPORT OF THE DIRECTORS

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

As at 31st May, 2005, the interests and short positions of the Directors and chief executive in the Shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register maintained by the Company under section 352 of the SFO or as notified to the Company were as follows:

The Company

	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total Interests	Total Interests as % of the issued share capital	Underlying shares (share options)	Total Interests (including underlying shares) as % of the issued share capital
Number of shares of HK\$1.00 each in the Company								
Hans-Joerg SEEBERGER	—	—	—	478,620,553 <i>(Note i)</i>	478,620,553	37.65%	12,000,000 <i>(Note iii)</i>	38.59%
Peter Ka Yue LEE	530,291	—	8,191,773 <i>(Note ii)</i>	—	8,722,064	0.69%	500,000 <i>(Note iii)</i>	0.73%
Michael Richard POIX	2,884,666	—	—	—	2,884,666	0.23%	500,000 <i>(Note iii)</i>	0.27%
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. Götz 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. Hans-Joerg SEEBERGER and his family.
- ii. These shares were beneficially owned by Joshua Limited, a company which was wholly and beneficially owned by Mr. Peter Ka Yue LEE.
- iii. The options, exercisable at HK\$2.11 per share, were granted pursuant to the 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.

REPORT OF THE DIRECTORS

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

Associated Corporations

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
Number of shares of HK\$0.50 each in Egana Jewellery								
Hans-Joerg SEEGERGER	—	—	—	247,166,099	247,166,099	59.82%	3,300,000	60.62%
				(Note i)			(Note iii)	
Peter Ka Yue LEE	73,651	—	1,114,838	—	1,188,489	0.29%	250,000	0.35%
			(Note ii)				(Note iii)	
Michael Richard POIX	373,398	—	—	—	373,398	0.09%	250,000	0.15%
							(Note iii)	
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. Hans-Joerg SEEGERGER 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 Captive Insurance Trust under the SFO, Mr. Hans-Joerg SEEGERGER 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.

REPORT OF THE DIRECTORS

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

Associated Corporations *(Cont'd)*

Tonic Industries Holdings Limited ("Tonic")

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

Notes:

- i The shares were held by wholly-owned subsidiaries of the Company. By virtue of Mr. Hans-Joerg SEEBERGER interest in the Company as disclosed above, he was deemed to be interested in these shares and disclosed the same under the SFO.
- ii The options, exercisable at HK\$0.467 per share, were granted pursuant to Tonic's share option scheme.

Certain Directors held certain nominee shares in subsidiaries in trust for the Company or its subsidiaries as at 31st May, 2005.

Save as disclosed above, as at 31st May, 2005, 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 and the Company pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") or which are required to be entered in the register under section 352 of the SFO.

REPORT OF THE DIRECTORS

MANAGEMENT CONTRACTS

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

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

As at 31st May, 2005, no 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. The Company had not been notified by any other person (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.

MAJOR CUSTOMERS AND SUPPLIERS

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

During the year, purchases from the Group's five largest suppliers in aggregate accounted for less than 30% of the total purchases for the year.

At 31st May, 2005, none of the Directors, their associates, or any shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers or suppliers.

EMPLOYEES

As at 31st May, 2005, the Group employed approximately 7,900 staff. Remuneration is determined by reference to the employees' performance, qualifications, experiences and the prevailing market conditions. The Company has established discretionary bonuses, employee share option schemes to motivate and reward employees to achieve the Company's business performance targets.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTION

Details of the connected transaction for the year are set out in Note 34b to the accounts. The Independent Non-Executive Directors have reviewed the connected transaction set out in Note 34b and confirmed that the transaction was entered into:

1. in the ordinary and usual course of business of the Company;
2. either on normal commercial terms or, if there were not sufficient comparable transactions to judge whether they were on normal commercial terms, on terms no less favourable to the Company than terms available to or from independent third parties as appropriate;
3. in accordance with the relevant agreement governing the connected transaction on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and
4. the aggregate value of the connected transaction during the periods up to the financial year ended 31st May, 2005 has not exceeded the relevant annual cap. set by the Company.

The above connected transaction has been reviewed by the auditors of the Company who have confirmed that during the year the above connected transaction was conducted in a manner which satisfies the following conditions:-

1. The connected transaction has been:
 - (i) approved by the Board of Directors;
 - (ii) entered into in accordance with the pricing policy as stated in the agreement; and
 - (iii) entered into in accordance with the relevant agreement governing the transaction.
2. The aggregate value of connected transaction has not exceeded the annual cap. set by the Company.

Save as disclosed therein, there were no other transactions which needed to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

REPORT OF THE DIRECTORS

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

On 28th January, 2005, the Company entered into a loan agreement with a syndicate of banks in respect of a HK\$300,000,000 Revolving Credit and Term Loan Facility (“HK\$300 million Loan Facility”). The proceeds of the HK\$300 million Loan Facility would be used exclusively to refinance the Company’s indebtedness under a HK\$240,000,000 syndicated transferable loan facility made available to the Company pursuant to a loan agreement dated 25th September, 2003 and to finance the Company’s general working capital requirements. The HK\$300 million Loan Facility should be repaid in full on or before 27th January, 2008.

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

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

Under the aforesaid HK\$300 million Loan Facility, EUR60 million Loan Facility and US\$16 million Loan Facility, the following conditions were imposed on Mr. Seeberger, the single largest controlling shareholder of the Company:

- i) Mr. Seeberger continues to be the Chairman of the Company and control the day-to-day management of the Company; 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 continues to 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 respective HK\$300 million Loan Facility, EUR60 million Loan Facility and US\$16 million Loan Facility. If such an event of default occurs, all amounts outstanding, including the accrued interest and all other sums payable, under the respective Facility may become immediately due and payable.

REPORT OF THE DIRECTORS

CODE OF BEST PRACTICE AND CORPORATE GOVERNANCE

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 the old Appendix 14 of the Listing Rules throughout the year.

In order to comply with the Code on Corporate Governance Practices, Appendix 14 of the Listing Rules, the Company has adopted its own “Code on Corporate Governance” in July 2005. A detailed Corporate Governance Report was contained on pages 106 to 113 of this Annual Report.

AUDIT COMMITTEE

The Audit Committee, comprising three Independent Non-Executive Directors, has reviewed the Company’s audited annual financial results for the year ended 31st May, 2005, the accounting principles and practices adopted by the Company, the effectiveness of the internal control system and discussed with management regarding the external auditing as well as the internal control system review process.

Details of the Audit Committee Meetings held and the works done by Audit Committee during the year were contained in the Corporate Governance Report.

REMUNERATION COMMITTEE

The Remuneration Committee, comprising three Independent Non-Executive Directors and an Executive Director has reviewed, inter alia, the board policy for remuneration of the Chairman, Executive Directors, senior management as well as the Group’s overall remuneration policy and basis of determination.

Details of the Remuneration Committee Meeting held and the works done by the Remuneration Committee were contained in the Corporate Governance Report.

MODEL CODE

The Company has adopted its own “Code for Securities Transactions by Directors” (the “Code of Conduct”) on terms no less exacting than the required standard set out in the Model Code (Appendix 10 of the Listing Rules).

Confirmations have been obtained from all Directors to acknowledge compliance with the Model Code and the Code of Conduct throughout the year.

PUBLIC FLOAT

On the basis of information that is publicly available to the Company within the knowledge of the Directors as at the date of this Annual Report, the Company has complied with the public float requirements of the Listing Rules for the financial year ended 31st May, 2005.

REPORT OF THE DIRECTORS

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors has interests in any business which compete or are likely to compete, either directly or indirectly, with the business of the Company during the year ended 31st May, 2005 and up to the date of this Annual Report.

SUBSEQUENT EVENTS

Details of significant subsequent events are set out in the Note 35 to the accounts.

AUDITORS

PricewaterhouseCoopers acted as auditors of the Company up to and including the year ended 31st May, 2003. PricewaterhouseCoopers resigned on 28th May, 2004 and the Directors appointed RSM Nelson Wheeler to fill the casual vacancy. RSM Nelson Wheeler audited the Company's accounts for the year ended 31st May, 2004. RSM Nelson Wheeler resigned on 11th April, 2005 and the Directors appointed Baker Tilly Hong Kong Limited to fill the casual vacancy. Baker Tilly Hong Kong Limited audited the Company's accounts for the year ended 31st May, 2005.

On behalf of the Board

EganaGoldpfeil (Holdings) Limited



Hans-Joerg SEEBERGER

Chairman and Chief Executive

Hong Kong, 14th September, 2005