INTERIM REPORT 2005/06

»Emotions and creativity do not know boundaries, visionary thinking transcends borderlines, even the ones within us.« *Hans-Jörg Seeberger*

CORPORATE INFORMATION

PRINCIPAL ACTIVITY

Design, assembly, manufacturing and distribution of timepieces, jewellery and leather & lifestyle products; licensing or assignment of brand names or trademarks to third parties; trading of timepiece components, jewellery and consumer electronic products and distribution of branded timepieces, jewellery, leather & lifestyle products through franchisees under the franchising arrangement and holding of investments.

HEAD OFFICE & PRINCIPAL PLACE OF BUSINESS

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HONG KONG SHARE REGISTRARS & TRANSFER OFFICE

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

LISTING

The Stock Exchange of Hong Kong Limited Stock Code: 48
(Constituent Stock of Hang Seng Composite Index Series)

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

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Six months ended	
	Notes	**30th November, 2005 (Unaudited)**	**30th November, 2004 (Unaudited and restated)**
		HK$'000	*HK$'000*
Turnover	*3*	**2,832,464**	1,670,467
Cost of sales		**(1,609,977)**	(973,905)
Gross profit		**1,222,487**	696,562
Other revenues		**54,107**	42,420
Distribution costs		**(612,003)**	(340,838)
Administrative expenses		**(423,067)**	(221,996)
Operating profit		**241,524**	176,148
Finance costs		**(64,285)**	(38,731)
Profit before share of profit/(loss) of associated companies		**177,239**	137,417
Share of profit/(loss) of associated companies		**13,633**	8,885
Profit before taxation	*3, 4*	**190,872**	146,302
Taxation	*5*	**(22,727)**	(8,790)
Profit for the period		**168,145**	137,512
Attributable to:			
Equity holders of the Company		**147,196**	121,058*
Minority interests		**20,949**	16,454
		168,145	137,512
Dividends	*6*	**36,003**	30,204
Earnings per share	*7*		
Basic		**11.56 cents**	10.25 cents
Diluted		**11.33 cents**	9.35 cents

* Distributable Earnings per Interim Report for the 6 months ended 30th November, 2004 — 88,691*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months ended 30th November, 2005 (Unaudited)	Six months ended 30th November, 2004 (Unaudited and restated)
	HK$'000	*HK$'000*
Opening balance - Total equity, as previously reported	**1,748,424**	1,433,228
Retrospective adjustment - reclassification of leasehold land from fixed assets	**(8,713)**	738
Retrospective adjustment - reversal of share of asset revaluation reserve of an associated company	**(8,794)**	(1,281)
Retrospective adjustment - loss on acquisition of additional interests in subsidiaries	**(87,457)**	(1,457)
Retrospective adjustment - reclassification of minority interests to equity	**276,181**	150,004
Retrospective adjustment - reclassification of convertible bonds to equity	**13,035**	50,032
Negative goodwill transferred to retained profits	**—**	40,813
Opening balance - Total equity, as restated	**1,932,676**	1,672,077
(Deficit)/Surplus on revaluation of available-for-sale financial assets/investments in non-trading securities	**(30,031)**	7,944
Exchange differences on translation of the financial statements of foreign subsidiaries and associated companies	**(4,844)**	(775)
Share of exchange translation reserve surplus/(deficit) of an associated company	**974**	(139)
Net (expense)/income recognised directly in equity	**(33,901)**	7,030
Profit for the period	**168,145**	137,512
Realisation of reserves upon disposal of available-for-sale financial assets	**6,229**	—
Loss on acquisition of additional interests in subsidiaries	**—**	(80,639)
Shares issued upon conversion of convertible bonds	**5,240**	31,604
Expenses incurred in connection with conversion of convertible bonds and issue of shares	**(12)**	(28)
Issue of convertible bonds of a subsidiary	**22,803**	—
Conversion of convertible bonds of a subsidiary	**12,595**	66,284
Acquisition of additional interest in a subsidiary	**—**	(26,502)
Acquisition of a subsidiary	**—**	3,731
Partial disposal of interest in a subsidiary	**—**	(1,396)
Dividends declared	**(44,678)**	(29,846)
Dividends paid to minority interests	**(500)**	(500)
Closing balance - Total equity	**2,068,597**	1,779,327

CONSOLIDATED BALANCE SHEET

	Notes	As at 30th November, 2005 (Unaudited)	As at 31st May, 2005 (Audited and restated)
		HK$'000	*HK$'000*
Non-current assets			
Fixed assets	*8*	**341,622**	336,622
Leasehold land	*9*	**21,248**	21,583
Intangible assets	*10*	**676,201**	702,643
Deferred tax assets		**116,561**	128,088
Interests in associated companies		**165,568**	152,646
Available-for-sale financial assets	*11*	**348,040**	—
Investments in non-trading securities	*11*	**—**	527,876
		1,669,240	1,869,458
Current assets			
Inventories		**1,266,684**	1,160,671
Accounts receivable, net	*12*	**769,730**	450,036
Deposits, prepayments and other receivables		**725,308**	411,204
Due from an associated company		**18,146**	11,528
Derivative financial instruments		**9,901**	—
Investments held for trading		**298**	—
Short-term investments		**—**	83,317
Cash and cash equivalents		**1,012,911**	812,895
		3,802,978	2,929,651
Current liabilities			
Accounts payable	*13*	**(303,899)**	(252,796)
Accruals and other payables		**(438,340)**	(453,234)
Bills payable		**(193,958)**	(166,877)
Provisions		**(9,825)**	(7,646)
Derivative financial instruments		**(38,850)**	—
Short-term bank borrowings	*14*	**(908,223)**	(1,121,902)
Current portion of long-term bank borrowings	*14*	**(122,612)**	(89,464)
Convertible bonds		**(5,117)**	(10,365)
Current portion of other long-term liabilities		**(35,212)**	(28,996)
Current portion of obligations under finance leases		**(644)**	(8,766)
Current portion of pensions and other post retirement obligations		**(8,394)**	(14,724)
Due to associated companies		**(3,339)**	(4,693)
Due to Directors		**(5)**	(481)
Loan from a minority shareholder		**(1,245)**	(1,324)
Taxation payable		**(14,128)**	(17,695)
Final dividend payable		**(44,678)**	—
		(2,128,469)	(2,178,963)

CONSOLIDATED BALANCE SHEET *(continued)*

	Notes	As at 30th November, 2005 (Unaudited)	As at 31st May, 2005 (Audited and restated)
		HK$'000	*HK$'000*
Net current assets		**1,674,509**	750,688
Total assets less current liabilities		**3,343,749**	2,620,146
Non-current liabilities			
Long-term bank borrowings	*14*	**(1,020,379)**	(458,543)
Other long-term liabilities		**(39,545)**	(5,308)
Convertible bonds		**(3,600)**	—
Pensions and other post retirement obligations		**(205,552)**	(215,928)
Deferred tax liabilities		**(6,076)**	(7,691)
		(1,275,152)	(687,470)
Net assets		**2,068,597**	1,932,676
Capital and reserves			
Share capital	*15*	**1,276,526**	1,271,286
Reserves	*16*	**438,934**	340,614
Proposed interim/final dividend		**36,003**	44,595
Equity attributable to equity holders of the Company		**1,751,463**	1,656,495
Minority interests	*16*	**317,134**	276,181
Total Equity		**2,068,597**	1,932,676

CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30th November, 2005 (Unaudited) *HK$'000*	Six months ended 30th November, 2004 (Unaudited) *HK$'000*
Cash (used in)/generated by operations	**(367,199)**	277,388
Interest paid	**(46,772)**	(28,598)
Tax paid	**(18,472)**	(6,519)
Tax refund	**1,213**	3,247
Net cash (used in)/from operating activities	**(431,230)**	245,518
Net cash from/(used in) investing activities	**160,224**	(195,427)
Net cash from financing activities	**479,995**	36,068
Net increase in cash and cash equivalents	**208,989**	86,159
Cash and cash equivalents at 1st June, 2005 / 1st June, 2004	**812,895**	562,684
Effect of foreign exchange rate changes	**(8,973)**	5,306
Cash and cash equivalents at 30th November, 2005 / 30th November, 2004	**1,012,911**	654,149
Analysis of cash and cash equivalents:		
Cash and bank balances	**407,311**	239,444
Promissory notes	**605,600**	414,705
	1,012,911	654,149

Notes:

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

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

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

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

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

Trademarks, goodwill and negative goodwill

Subsequent to 30th November, 2004, the Group decided to early adopt HKFRS 3 "Business Combinations" together with HKAS 36 "Impairment of Assets" and HKAS 38 "Intangible Assets" in 2005. Since 1st June, 2004, amortisation of the acquired trademarks and positive goodwill has been discontinued and negative goodwill has been recognised immediately in the profit and loss account. As a result, the profit attributable to equity holders of the Company for the six months ended 30th November, 2004 is increased by approximately HK$12 million as compared with that previously disclosed in the previous interim accounts.

Leasehold land

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

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

The new accounting policies have been adopted retrospectively, with the opening balances of retained profits and the land and buildings revaluation reserve and the comparative information adjusted for the amounts relating to prior period. As a result, the opening retained profits as at 1st June, 2005 was increased by approximately HK$1 million.

Notes: (continued)

1. Basis of preparation and principal accounting policies *(continued)*

Financial instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosures and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for accounting periods beginning on or after 1st January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

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

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

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

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

Non-trading securities

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

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

Trading securities

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

Notes: (continued)

1. Basis of preparation and principal accounting policies *(continued)*

Financial instruments *(continued)*

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

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

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

On 1st June, 2005, following the adoption of HKAS 39, the Group has re-designated "investments in non-trading securities" amounting to approximately HK$527,876,000 and "short-term investments" (including "investments in trading securities") amounting to approximately HK$83,317,000 recorded in the consolidated balance sheet as "available-for-sale financial assets" and "investments held for trading", respectively.

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

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

(b) Derivative financial instruments

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

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

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

Notes: (continued)

1. Basis of preparation and principal accounting policies *(continued)*

Financial instruments *(continued)*

(b) Derivative financial instruments *(continued)*

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

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

(c) Derecognition

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

(d) Convertible bonds

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

Minority interests

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

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

Notes: (continued)

1. Basis of preparation and principal accounting policies *(continued)*

Minority interests *(continued)*

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

Gain or loss arising from transactions with minority interests are now recognised directly in equity and such policy has been applied retrospectively. As a result, the profit attributable to equity holders of the Company for the six months ended 30th November, 2004 is increased by approximately HK$20 million as compared with that previously disclosed in the interim accounts.

Share-based payments

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

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

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

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

As all the Group's options were granted to option holders before 7th November, 2002, the Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied. Accordingly, the adoption of HKFRS 2 has no impact on the Group's net assets and results for the current and prior periods.

Notes: (continued)

2. Summary of the effects of the changes in accounting policies

The cumulative effects of the new HKFRSs as at 31st May, 2005 and 1st June, 2005 are summarised below.

	As at 31st May, 2005 (previously reported)	Retrospective adjustments HKAS 17	HKAS 27	HKAS 32	As at 31st May, 2005 (restated)	Adjustments on 1st June, 2005 HKAS 39	As at 1st June, 2005 (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fixed assets	368,620	(31,998)	—	—	336,622	—	336,622
Leasehold land	—	21,583	—	—	21,583	—	21,583
Intangible assets	790,100	—	(87,457)	—	702,643	—	702,643
Deferred tax assets	128,088	—	—	—	128,088	—	128,088
Interests in associated companies	161,440	(8,794)	—	—	152,646	—	152,646
Available-for-sale financial assets	—	—	—	—	—	527,876	527,876
Investments in non-trading securities	527,876	—	—	—	527,876	(527,876)	—
Inventories	1,160,671	—	—	—	1,160,671	—	1,160,671
Accounts receivable, net	450,036	—	—	—	450,036	—	450,036
Deposits, prepayments and other receivables	411,204	—	—	—	411,204	—	411,204
Due from associated companies	11,528	—	—	—	11,528	—	11,528
Investments held for trading	—	—	—	—	—	83,317	83,317
Short-term investments	83,317	—	—	—	83,317	(83,317)	—
Cash and cash equivalents	812,895	—	—	—	812,895	—	812,895
Accounts payable	(252,796)	—	—	—	(252,796)	—	(252,796)
Accruals and other payables	(453,234)	—	—	—	(453,234)	—	(453,234)
Bills payable	(166,877)	—	—	—	(166,877)	—	(166,877)
Provisions	(7,646)	—	—	—	(7,646)	—	(7,646)
Short-term bank borrowings	(1,121,902)	—	—	—	(1,121,902)	—	(1,121,902)
Current portion of long-term bank borrowings	(89,464)	—	—	—	(89,464)	—	(89,464)
Convertible bonds	(23,400)	—	—	13,035	(10,365)	—	(10,365)
Current portion of other long-term liabilities	(28,996)	—	—	—	(28,996)	—	(28,996)
Current portion of obligations under finance leases	(8,766)	—	—	—	(8,766)	—	(8,766)
Current portion of pensions and other post retirement obligations	(14,724)	—	—	—	(14,724)	—	(14,724)

Notes: (continued)

2. Summary of the effects of the changes in accounting policies *(continued)*

	As at 31st May, 2005 (previously reported)	Retrospective adjustments HKAS 17	HKAS 27	HKAS 32	As at 31st May, 2005 (restated)	Adjustments on 1st June, 2005 HKAS 39	As at 1st June, 2005 (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Due to associated companies	(4,693)	—	—	—	(4,693)	—	(4,693)
Due to Directors	(481)	—	—	—	(481)	—	(481)
Loan from a minority shareholder	(1,324)	—	—	—	(1,324)	—	(1,324)
Taxation payable	(17,695)	—	—	—	(17,695)	—	(17,695)
Long-term bank borrowings	(458,543)	—	—	—	(458,543)	—	(458,543)
Other long-term liabilities	(5,308)	—	—	—	(5,308)	—	(5,308)
Pensions and other post retirement obligations	(215,928)	—	—	—	(215,928)	—	(215,928)
Deferred tax liabilities	(9,606)	1,915	—	—	(7,691)	—	(7,691)
Total effects on assets and liabilities	2,024,392	(17,294)	(87,457)	13,035	1,932,676	—	1,932,676
Minority interests	(275,968)	(213)	276,181	—	—	—	—
	1,748,424	(17,507)	188,724	13,035	1,932,676	—	1,932,676
Share capital	1,271,286	—	—	—	1,271,286	—	1,271,286
Reserves	432,543	(17,507)	(87,457)	13,035	340,614	—	340,614
Proposed final dividend	44,595	—	—	—	44,595	—	44,595
Equity attributable to equity holders of the Company	1,748,424	(17,507)	(87,457)	13,035	1,656,495	—	1,656,495
Minority interests	—	—	276,181	—	276,181	—	276,181
Total effects on total equity	1,748,424	(17,507)	188,724	13,035	1,932,676	—	1,932,676

Notes: (continued)

3. Segmental information

(a) Primary reporting format - business segments

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

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

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

	Six months ended 30th November, 2005					
	Timepieces	**Jewellery**	**Leather & lifestyle products**	**Investments**	**Eliminations**	**Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	954,659	433,124	1,444,681	—	—	2,832,464
Inter-segment revenue	8,973	1,658	3,888	—	(14,519)	—
Dividend income	—	—	—	2,081	—	2,081
Segment results	80,265	75,964	82,912	2,383	—	241,524
Finance costs						(64,285)
Profit before share of profit of associated companies						177,239
Share of profit of associated companies						13,633
Profit before taxation						190,872
Taxation						(22,727)
Profit for the period						168,145
Attributable to:						
Equity holders of the Company						147,196
Minority interests						20,949
						168,145

Notes: (continued)

3. Segmental information *(continued)*

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

	Timepieces	Jewellery	Leather & lifestyle products	Investments	Eliminations	Group
	Six months ended 30th November, 2005					
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure	17,215	9,191	35,612	—	—	62,018
Depreciation	9,064	4,699	21,151	—	—	34,914
Amortisation	5,893	1,099	2,342	—	—	9,334
Write-back of provision for bad debts	1,064	80	1,056	—	—	2,200
Bad debt expense	693	284	213	—	—	1,190
Write-back of provision for inventory	—	2,468	37,495	—	—	39,963
Provision for inventory	2,283	—	4,891	—	—	7,174
	As at 30th November, 2005					
Segment assets	1,912,249	1,343,247	1,702,816	348,338	—	5,306,650
Interests in associated companies	165,150	(59)	477	—	—	165,568
Total assets						5,472,218
Segment liabilities	(2,080,903)	(724,359)	(598,359)	—	—	(3,403,621)
Total liabilities						(3,403,621)

Notes: (continued)

3. Segmental information *(continued)*

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

	Six months ended 30th November, 2004 (Restated)					
	Timepieces	**Jewellery**	**Leather & lifestyle products**	**Investments**	**Eliminations**	**Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	839,858	420,668	409,941	—	—	1,670,467
Inter-segment revenue	8,531	3,791	3,558	—	(15,880)	—
Dividend income	—	—	—	559	—	559
Segment results	97,058	60,965	17,566	559	—	176,148
Finance costs						(38,731)
Profit before share of profit of associated companies						137,417
Share of profit of associated companies						8,885
Profit before taxation						146,302
Taxation						(8,790)
Profit for the period						137,512
Attributable to:						
Equity holders of the Company						121,058
Minority interests						16,454
						137,512
Captial expenditure	324	3,545	10,466	—	—	14,335
Depreciation	9,185	3,915	8,472	—	—	21,572
Amortisation	7,608	1,117	2,087	—	—	10,812
Write-back of provision for bad debts	—	291	—	—	—	291
Bad debt expense	1,376	331	373	—	—	2,080
Write-back of provision for inventory	—	22,748	—	—	—	22,748
Provision for inventory	2,156	—	1,791	—	—	3,947

Notes: (continued)

3. Segmental information *(continued)*

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

	As at 31st May, 2005 (Restated)					
	Timepieces	**Jewellery**	**Leather & lifestyle products**	**Investments**	**Eliminations**	**Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets	1,312,426	1,163,056	1,642,787	528,194	—	4,646,463
Interests in associated companies	152,616	(58)	88	—	—	152,646
Total assets						4,799,109
Segment liabilities	(1,507,734)	(653,377)	(705,322)	—	—	(2,866,433)
Total liabilities						(2,866,433)

(b) Secondary reporting format - geographical segments

The Group's operations are mainly located in Europe, Asia Pacific and America. In determing the Group's geographical segments, turnover is attributed to the segments based on the destination of merchandise. Segment assets and capital expenditure were based on the geographical locations of the assets.

	Six months ended 30th November, 2005			As at 30th November, 2005
	Turnover	**Segment results**	**Capital expenditure**	**Total assets**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Europe	2,402,241	189,779	50,305	2,803,087
America	112,115	(716)	1,245	113,039
Asia Pacific	318,108	52,461	10,468	2,390,524
	2,832,464	241,524	62,018	5,306,650
Interests in associated companies				165,568
Total assets				5,472,218

Notes: (continued)

3. **Segmental information** *(continued)*

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

	Six months ended 30th November, 2004 (Restated)			**As at 31st May, 2005**
	Turnover	**Segment results**	**Capital expenditure**	**Total assets (Restated)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Europe	1,330,562	129,039	4,683	2,414,602
America	92,181	(900)	2,954	84,625
Asia Pacific	247,724	48,009	6,698	2,147,236
	1,670,467	176,148	14,335	4,646,463
Interests in associated companies				152,646
Total assets				4,799,109

4. **Profit before taxation**

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

	Six months ended 30th November, 2005	**Six months ended 30th November, 2004 (Restated)**
	HK$'000	*HK$'000*
Crediting:		
Interest income	**24,910**	17,495
Exchange gain, net	**—**	19,695
Net fair value gain on financial instruments		
- interest rate swap: cash flow hedges	**3,944**	—
Gain on derivative financial instruments		
- forward foreign exchange contracts	**2,445**	—
- forward gold contracts	**371**	—
Charging:		
Depreciation of fixed assets	**34,914**	21,572
Amortisation of intangible assets	**8,999**	10,482
Amortisation of leasehold land	**335**	330
Exchange loss, net	**20,911**	—
Interest expenses	**53,274**	28,011
Loss on derivative financial instruments		
- currency options, net	**566**	—

Notes: (continued)

5. Taxation

Taxation comprised:

	Six months ended 30th November, 2005 *HK$'000*	Six months ended 30th November, 2004 *HK$'000*
Company and subsidiaries		
Current taxation:		
Hong Kong profits tax		
- Provision for current period	**2,921**	10,488
- Over-provision in prior periods	**—**	(6,160)
Overseas income tax		
- Provision for current period	**10,946**	2,356
- Under/(Over)-provision in prior periods	**83**	(757)
Deferred taxation - Recognised during the period	**8,777**	2,863
	22,727	8,790

Hong Kong profits tax was provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit arising in or derived from Hong Kong. Overseas income tax was provided by subsidiaries with overseas operations on their estimated assessable profits for the period at the tax rates applicable in the countries in which the subsidiaries operated.

6. Interim dividend

The Board has resolved to declare an interim dividend of HK2.8 cents per share (2004: HK2.5 cents) payable on 29th March, 2006 to shareholders whose names appear on the register of members of the Company on 15th March, 2006.

Notes: (continued)

7. Earnings per share

(a) *Basic earnings per share*

Basic earnings per share was calculated based on the consolidated profit attributable to equity holders of the Company for the period of approximately HK$147,196,000 (2004: HK$121,058,000) and the weighted average number of ordinary shares of approximately 1,273,634,000 (2004: 1,180,528,000) in issue during the period.

(b) *Diluted earnings per share*

Diluted earnings per share was calculated based on the adjusted consolidated profit attributable to equity holders of the Company for the period of approximately HK$145,621,000 (2004: HK$121,322,000) and the weighted average number of ordinary shares of approximately 1,285,486,000 (2004: 1,298,229,000) that would be in issue having adjusted for the effects of all dilutive potential ordinary shares issuable during the period.

(c) *Reconciliation*

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

	Six months ended	
	30th November, 2005	**30th November, 2004 (restated)**
	HK$'000	*HK$'000*
Profit attributable to equity holders of the Company used in calculating basic earnings per share	**147,196**	121,058
Dilutive potential effect in the earnings of a subsidiary in respect of convertible bonds of the subsidiary	**(1,609)**	—
Interest savings in respect of convertible bonds	**34**	264
Profit attributable to equity holders of the Company used in calculating diluted earnings per share	**145,621**	121,322

Notes: (continued)

7. **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:

	Six months ended 30th November, 2005	Six months ended 30th November, 2004
Weighted average number of ordinary shares used in calculating basic earnings per share	**1,273,634,000**	1,180,528,000
Dilutive potential effect in respect of -		
- Convertible bonds	**11,822,000**	117,692,000
- Share options of the Company	**30,000**	9,000
Weighted average number of ordinary shares used in calculating diluted earnings per share	**1,285,486,000**	1,298,229,000

8. **Fixed assets**

	Property, plant and equipment *HK$'000*
Carrying value as at 1st June, 2005, as previously reported	368,620
Effect of adopting HKAS 17	(31,998)
Carrying value as at 1st June, 2005, as restated	336,622
Additions	57,514
Exchange adjustments and disposals	(17,600)
Charge for the period	(34,914)
Carrying value as at 30th November, 2005	341,622

9. **Leasehold land**

	HK$'000
Carrying value as at 1st June, 2005, as previously reported	—
Effect of adopting HKAS 17	21,583
Carrying value as at 1st June, 2005, as restated	21,583
Charge for the period	(335)
Carrying value as at 30th November, 2005	21,248

Notes: (continued)

10. Intangible assets

	HK$'000
Carrying value as at 1st June, 2005, as previously reported	790,100
Effect of adopting HKAS 27	(87,457)
Carrying value as at 1st June, 2005, as restated	702,643
Additions	4,504
Exchange adjustments and disposals	(21,947)
Charge for the period	(8,999)
Carrying value as at 30th November, 2005	676,201

11. Investments in non-trading securities/available-for-sale financial assets

At 30th November, 2005, the available-for-sale financial assets were stated at fair values which were determined by the Directors or according to quoted market prices and the revaluation deficit of approximately HK$30,031,000 (2004: a surplus of HK$7,944,000) was recorded in the revaluation reserve. In the opinion of the Directors, there was no indication of impairment in the carrying values of the investments/financial assets.

12. Accounts receivable aging analysis

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

	As at 30th November, 2005	**As at 31st May, 2005**
	HK$'000	*HK$'000*
Current month	530,192	308,254
Between 1 to 2 months	89,997	51,404
Between 2 to 3 months	49,783	24,744
Between 3 to 4 months	49,452	16,780
Over 4 months	50,306	48,854
	769,730	450,036

13. Accounts payable aging analysis

Aging analysis of accounts payable is as follows:

	As at 30th November, 2005	**As at 31st May, 2005**
	HK$'000	*HK$'000*
Current month	207,564	195,405
Between 1 to 2 months	32,602	17,785
Between 2 to 3 months	28,780	12,516
Between 3 to 4 months	14,670	6,980
Over 4 months	20,283	20,110
	303,899	252,796

Notes: (continued)

14. Bank borrowings

(a) Short-term bank borrowings comprised:

	As at 30th November, 2005 *HK$'000*	As at 31st May, 2005 *HK$'000*
Bank loans and overdrafts	621,468	918,221
Trust receipts and import loans	286,755	203,681
	908,223	1,121,902

(b) Long-term bank borrowings:

	As at 30th November, 2005 *HK$'000*	As at 31st May, 2005 *HK$'000*
Repayable within a period of		
- not exceeding 1 year		
Secured	8,650	10,263
Unsecured	113,962	79,201
- more than 1 year, but not exceeding 2 years		
Secured	7,078	7,499
Unsecured	306,967	212,361
- more than 2 years, but not exceeding 5 years		
Secured	10,580	14,286
Unsecured	695,070	222,936
- after 5 years		
Secured	684	1,461
Unsecured	—	—
	1,142,991	548,007
Less: Amounts repayable within 1 year included under current liabilities	(122,612)	(89,464)
	1,020,379	458,543

15. Share capital

	Number of shares	Nominal value of each share *HK$*	Nominal value of shares *HK$'000*
Balance as at 1st June, 2005	1,271,286,051	1.00	1,271,286
Issued upon conversion of convertible bonds	5,240,000	1.00	5,240
Balance as at 30th November, 2005	1,276,526,051	1.00	1,276,526

Notes: (continued)

16. Reserves and minority interests

	Attributable to equity holders of the Company												
	Share premium account HK$'000	Convertible bonds HK$'000	Exchange translation reserve HK$'000	Retained profits HK$'000	Revaluation reserve HK$'000	Available-for-sale financial assets revaluation reserve HK$'000	Capital redemption reserve HK$'000	Goodwill HK$'000	Legal reserve HK$'000	Other reserves HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
Balance as at 1st June, 2005, as previously reported	363,311	–	(205,154)	710,454	20,984	–	40,801	(454,108)	270	580	477,138	–	477,138
Effect of adopting HKAS 17	–	–	–	1,039	(18,546)	–	–	–	–	–	(17,507)	213	(17,294)
Effect of adopting HKAS 27	–	–	–	(87,457)	–	–	–	–	–	–	(87,457)	275,968	188,511
Effect of adopting HKAS 32 & 39	–	13,035	–	–	(2,438)	2,438	–	–	–	–	13,035	–	13,035
Balance as at 1st June, 2005, as restated	363,311	13,035	(205,154)	624,036	–	2,438	40,801	(454,108)	270	580	385,209	276,181	661,390
Premium arising from conversion of convertible bonds	3,332	(3,332)	–	–	–	–	–	–	–	–	–	–	–
Expenses incurred in connection with issue of shares	(12)	–	–	–	–	–	–	–	–	–	(12)	–	(12)
Issue of convertible bonds of a subsidiary	–	22,803	–	–	–	–	–	–	–	–	22,803	–	22,803
Conversion of convertible bonds of a subsidiary	–	(14,703)	–	(4,391)	–	–	–	–	–	–	(19,094)	31,689	12,595
Minority share of equity portion of convertible bonds	–	(3,366)	–	–	–	–	–	–	–	–	(3,366)	3,366	–
Share of exchange translation reserve surplus of an associated company	–	–	974	–	–	–	–	–	–	–	974	–	974
Revaluation of listed available-for-sale financial assets	–	–	–	–	–	(19,471)	–	–	–	–	(19,471)	(10,560)	(30,031)
Disposal of unlisted available-for-sale financial assets	–	–	–	–	–	5,835	–	–	–	–	5,835	394	6,229
Profit for the period	–	–	–	147,196	–	–	–	–	–	–	147,196	20,949	168,145
Final dividend	–	–	–	(44,678)	–	–	–	–	–	–	(44,678)	–	(44,678)
Interim dividend declared	–	–	–	(36,003)	–	–	–	–	–	–	(36,003)	–	(36,003)
Dividends paid to minority interests	–	–	–	–	–	–	–	–	–	–	–	(500)	(500)
Exchange differences arising on translation of financial statements of foreign subsidiaries and associated companies	–	–	(459)	–	–	–	–	–	–	–	(459)	(4,385)	(4,844)
Balance as at 30th November, 2005	366,631	14,437	(204,639)	686,160	–	(11,198)	40,801	(454,108)	270	580	438,934	317,134	756,068

17. Related party transactions

(a) During the period, the Group entered into transactions with the following associated companies - Tonic Industries Holdings Limited ("Tonic"),Dominique Roger Diffusion S.A.R.L. ("Dominique"), Amaretta GmbH ("Amaretta") and JOOP! GmbH ("JOOP!") and a related company - Kuraray Co. Limited and its subsidiaries ("Kuraray group"). In the opinion of the Directors, the following transactions arose in the ordinary course of the Group's business:

	Six months ended	
	30th November, 2005 (Unaudited)	**30th November, 2004 (Unaudited)**
	HK$'000	*HK$'000*
Purchases from Amaretta	13	—
Purchases from Tonic	14,184	9,861
Purchases from Kuraray group	14,369	12,161
Sales to Dominique	12,511	5,213
Royalties to JOOP!	6,773	6,282
Interest income from Dominique	—	73
Interest expense to Amaretta	59	—
Interest expense to Tonic	460	—
Advertising contribution to JOOP!	2,965	—
Advertising contribution to Dominique	52	—
Management fee from Amaretta	811	—
Rental income from Amaretta	907	—

Notes:

i. Sales and purchases of goods were determined with reference to published prices and market conditions.

ii. Management fee and royalties were charged according to the terms of the relevant agreements.

iii. Trading transactions with Kuraray group also constituted connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

iv. Interest was charged at the commerical rate.

v. Advertising contribution and rental income were charged at a cost basis.

Notes: (continued)

17. Related party transactions *(continued)*

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

	Six months ended	
	30th November, 2005 (Unaudited)	**30th November, 2004 (Unaudited)**
	HK$'000	*HK$'000*
Salaries and other short-term employee benefits	55,092	42,887
Termination benefits	1,956	—
Post-employment benefits	1,654	1,003
	58,702	43,890

(c) The Group paid HK$Nil (2004: HK$2,432,000) to International Taxation Advisory Services Limited, of which Mr. David Wai Kwong WONG, a Director of the Company, was a director, for corporate advisory services rendered. The Directors consider that the fees were paid according to prices and conditions similar to those offered by other external consultants of the Group.

18. Contingent liabilities

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

	As at 30th November, 2005	**As at 31st May, 2005**
	HK$'000	*HK$'000*
Discounted bills with recourse	—	180,141
Guarantees given to landlords in respect of rental obligations of group companies	904	819
Guarantees given to customs in respect of default in customs obligations of group companies	276	293

As mentioned in Note 1, the Group's discounted bills with recourse, which were previously treated as contingent liabilities, have been accounted for as actual liabilities prospectively on or after 1st June, 2005 under HKAS 39.

BUSINESS REVIEW

Group turnover for the 6 months to November 2005 reached a record high of HK$2,832.5 million, up 70% from 1H FY 04/05's, which reflected an increase in product mixture from private label to more branded category. Within which 18% of the revenue came from private label items and 82% from branded segment (as compared to 27:73 ratio in prior year).

The Group will continue to increase its focus on branded sales and market extension. The former approach has the advantage of saving the logistics and delivery cost for enriching the Group's operating margin, whereas the latter strategy can help increase the brand equity and market share.

With better product mixture, and production efficiency, the gross margin increase from 41.7% in 1H FY 04/05 to 43.2% in FY 05/06.

During the period, Western Europe accounted for 77%, Eastern Europe accounted for 7%, US at 4% and Asia at 12% of Group's turnover, as compared to 1H FY 04/05's 77%, 2%, 6% and 15% respectively.

With the acquisition of Salamander, a renowned footwear brand and retailers with extensive network in both Eastern and Western Europe, in March 2005, the Group included the 6-month revenue of Salamander operations of HK$850 million during the period. We have been taking positive steps to further increase its brand awareness, network coverage as well as operating efficiency. We are pleased to see that there reflected a 50% increase in its operating margin from 4.1% to 6.1% during the period. The management is confident to continuously enhance its operating margin to 11% through its well-considered 5-year business development strategy for Salamander.

Excluding Salamander contribution, the organic growth in revenue of the Group reaches a remarkable 19%.

In Western Europe, with the ongoing introduction of new collections and new brands to the established points-of-sales (POS), the Group sustained a stable revenue base from this area, such that, the Group is better positioned to plan its resources for the branding and marketing globally. For example, in the Egana Spring Fair held in our exhibition hall of our European headquarters in Frankfurt Germany in January 2006, there saw the initial debut of Cerruti 1881 jewellery to the world. Puma watch, our latest license addition in 2005, was successfully launched to Germany, Austria, Belgium, France, Italy, Spain and Greece since November 2005, with encouraging response. This paves the way that Puma watch was introduced to Japan, Taiwan, Hong Kong and Singapore market at the beginning of 2006.

There saw a revenue increment in Western Europe of 69%, represented by an organic growth of 24% and Salamander effect of 35%.

BUSINESS REVIEW *(continued)*

Salamander also enables an encouraging growth of our existing watch and jewellery business in Eastern Europe by 14%, due to the high recognition of Salamander name and its extensive network, which allows a faster entry of our other products to these countries.

Asia, in particular Japan, Taiwan and China, continue to show positive reception of our brand presentation and distribution approach. Goldpfeil, Comtesse, Junghans, Pierre Cardin, Esprit, MEXX, Carrera, JOOP!, Cerruti 1881 and Puma have been successfully landed in this region. There reviewed a 28% y-o-y growth. In China, we have increased the active POS to 300 in number, recording a 45% revenue growth, now representing 6% of the Group's revenue. The Group will continue pursue the unique "one country four strategies" approach to gain market share in China.

Turning to US, with our participation as strategic partner in KIA Group, an American footwear distribution operations, the Group was given access to a wider network, which was proved to be beneficial to the further growth. During the period, there recorded a 22% growth in revenue as compared to 1H FY 04/05's.

MANAGEMENT DISCUSSIONS AND ANALYSIS

Based on the industry statistics, the affordable luxury segment is the fastest growing segment among all, enjoying 15% annual increment on comparison to luxury segment at 5% and fashion/sports segment at 10% range.

Furthermore, leather enjoys relatively faster market size growth and better operating margin as followed by watches and jewellery in the consumer products industry. Our focus in leather, watches and jewellery enable us to ride the wave of the industry growth.

The acquisition of Salamander, an affordable luxurious footwear (leather) operations, is timely, which facilities the Group to enjoy the benefit of relatively faster growth, thereby resulting in a strong 70% revenue growth in 1H FY 05/06.

The proportion of Luxury: Affordable luxury: Fashion/Sports: Private Label under our brand pyramid is 20%: 42%: 20%: 18% (as compared to 20%: 24%: 29%: 27% in FY 04/05). As noted above, the management has increased the proportion of fashion/sports and private label products to affordable luxury, for increasing the gross margin, and continues to focus on sustaining the luxury segment, both as income driver and entry card for other segments.

The revenue split by product category is 51% (leather), 34% (timepieces) and 15% (jewellery), as compared to FY 04/05, 30%, 47% and 23% respectively, due to the Salamander addition to the leather division.

MANAGEMENT DISCUSSIONS AND ANALYSIS *(continued)*

With the defined strategy to grow the sales network and brand awareness, the management also pays attention in controlling the distribution and administration expenses so as to increase the bottom line profitability.

The management is pleased to have maintained the operating leverage (fixed distribution and administration excluding depreciation and amortization cost to sales) ratio for FY 05/06 21.4% similar to range of 21.5% in FY 04/05, amid the inclusion of full year effect of Salamander acquisition in FY 05/06 (which represents an addition of some 40% revenue and operating base to the Group's operation platform in FY 04/05).

Consistent with prior years' model, the management continued to pitch the variable portion of distribution cost at 10% on sales, in support of the Group's defined communications, marketing and promotion programs for sustaining the brand equity and product positioning globally. As a result, the aggregate distribution cost to sales for 1H FY 05/06 was 21.6%, also similar in the range to that in FY 04/05.

Having regard to the Group's practice of exercising stringent cost control; the variable portion of administration cost was contained within 3% of sales. In addition, the continuous improvement in logistic efficiency in our European Technology & Logistic Center in Germany and the gross margin enhancement, managed to off-set the additional product development costs which were incurred to bring new innovation to the market for sustaining long term growth potential.

Given the foregoing, the total administration expenses to sales ratio for 1H FY 05/06 was 14.9%, again similar in range to that in FY 04/05.

We are committed to enhancing further the operating efficiency of Salamander operations (which, on acquisition in March 2005, was performing at a lower operating margin (4.1% than the Group's 8.6% in FY 04/05)), along its integration to the Group as well as its planned business growth, within the context of the management's focus to continuously enriching the operating efficiency and operating margin of the entire Group.

With a view to continuously enhancing the corporate structure and operating efficiency, the management is undertaking certain study on integration and structure streamlining possibilities for the benefit of the Group.

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$147.2 million, up 66% as compared to HK$88.7 million as recorded in the interim report for 1H FY 04/05.

As a result, this translated into a positive operating cash inflow to the Group, with cash and cash equivalents of HK$1,013 million as of 30th November, 2005.

MANAGEMENT DISCUSSIONS AND ANALYSIS *(continued)*

During the period, there existed certain changes in accounting standards in Hong Kong, which resulted in certain non-cash prior year's adjustments to FY 04/05 results. There were primarily 3 prior years adjustments to 1H FY 04/05, being (a) Increase in profit of HK$13.2 million relating to discontinuation of goodwill and trademark amortisation charges upon adoption of HKAS 38 and HKFRS 3; (b) Increase in profit of HK$20.4 million for reversal of accounting loss on deemed disposal of shareholding interests in Egana Jewellery & Pearls Limited ("Egana Jewellery"), a listed subsidiary of the Company, due to share dilution pursuant to conversion of convertible bonds by the bond holders, upon adoption of HKAS 27; and (c) Decrease in profit of HK$1.1 million due to adjustment for minority share in the increase in profit and reserve. As a result, the prior period's distributable earnings was adjusted by HK$32.5 million to reach the reinstated profit figure of HK$121.1 million pursuant to the changes of accounting standards.

The shareholders' funds stood at HK$1,751.5 million. In line with the established practice of having an annual cash dividend payout of no less than 35%, and targeting for a 35% (interim) to 65% (final) ratio, the management proposed an interim dividend of HK2.8 cents per share.

The annualized inventory turnover for the 6 months to November 2005 is at 138 days as compared to 171 days in FY 04/05. The annualized debtors turnover for November 2005 period is similar to that in FY 04/05, within 65 days. This is attributable to our ongoing focus in tight credit policy.

The finance cost to sales ratio for 1H FY 05/06 is similar to that in FY 04/05, at 2.3%, 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 having minimized the adverse effect of interest rate increase as far as practicable.

The current ratio is 1.79x, well ahead of the industry norm of 1x, reflecting a sound working capital platform to support the continuous growth of the business.

The gearing ratio (net debts to shareholders' funds) was 0.64x, as compared to the industry norm of 1x. This reinforces 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.

As of 27th January, 2006, Credit Suisse (Hong Kong) Limited ("Credit Suisse") has exercised all its outstanding conversion rights to convert the entire Bonds into shares of the Company. There does not exist any outstanding convertible bonds and subscription rights. Credit Suisse has no further right to require the Company to issue further convertible bonds and subscription rights under the convertible bond subscription agreement entered in February 2003.

As of 16th February, 2006, Merrill Lynch International has 13,655,619 subscription rights in the Egana Jewellery which will be expiring on 31st March, 2009, comprising of 4,588,349 rights exercisable at HK$1.5504 per share, 3,518,342 rights at HK$1.656 per share and 5,548,928 rights at HK$2.50 per share.

The leverage (Net debt to annualised EBITDA) in FY 05/06 was at 2.13x, as compared to 2.75x in FY 04/05, demonstrating the Group's sound financial position to leverage its borrowings in an optimal manner, which sets a firm base preparing for its business growth and capital investment going forward.

Total assets exceed HK$5,472 million as of 30th November, 2005. 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 asset of the Group.

Currently, the confirmed orders on hand cover 6-month worth of shipments.

The Group had no significant capital commitments as at 30th November, 2005 and there are no material contingent liabilities or off-balance sheet obligations in the ordinary course of business.

PROSPECT

Going forward, we being a specialist in brand management, continue to leverage on a model having 25% of revenue coming from our Direct-operated-store (currently having 300 in numbers), and 75% from our wholesale division in collaboration with our established strategic business partners including Franchisee, Department stores, Chain stores, Cooperative members as well as Independent retailers (which collectively provide the Group to have access 13,800 POS worldwide).

We plan to open further Direct-operated-stores in prime locations in Europe and Asia to gain further brand recognition and to attract business partners for widening sales coverage.

In Europe, the Eastern Europe enjoyed relatively faster growth in consumer product market. The Group is better positioned than the peers in terms of being able to capitalizing the extensive Salamander network and its strong recognition in Eastern Europe to introduce the Group's other products there in a more expeditious and cost-effective manner.

As regards the Western Europe, we will continue to introduce new product collections and brands to the existing POS, leverage on it to open new network complementary to the currently established coverage to sustain the market share.

PROSPECT *(continued)*

We will work on Salamander (which has high brand recognition in Germany, France, Austria and Belgium) for further product extension (from shoes to small leather accessories) and to expand our shops to carry the Group's other branded leather products.

Market statistics indicated the 60% of branded watches, jewellery and leather products came from American and Asian regions which showed a higher than average growth. The European brands in watch, jewellery and leather segments are of better receptions in those two growing regions.

In addition, the Company is to pursue strategic alliance possibility to achieve continuous business growth in Asia and the US.

We are actively working on the business plan to bring Salamander and Sioux collections to Asia, capitalizing on the experience of the successful landing of Goldpfeil, Comtesse and JOOP! leather collections there.

In the US, the strategic alliance entered in end of May 2005, would be our entry card for launching the leather and shoes collections there.

Junghans, the most trusted watch brand in Europe according to independent market study, possesses a portfolio of an advanced watch technology and collection as well as a strong heritage in watch history. Hence, it is well-positioned to introduce on its own, as well as to collaborate with our other brands for co-presentation, to Asia and USA.

With a well-balanced portfolio of brands with international recognition, and our pioneer experience in co-branding approach, we are confident that through appropriate partnership with strong retail network and/or chain stores, we should be able to expand steadily in these two growing regions. Our 5-year target is to increase the revenue pie from these 2 regions combined from 25% to 40%. The remaining 60% of enlarged revenue is to come from Europe where the paramount branding, marketing and trade fair activities are primarily originated for global benefit.

To cope with the anticipated further growth, we are upgrading our watch production facilities in China in line with our commitment to ensuring our manufacturing network in both Europe (7 in number) and Asia (5 in number) to be of worldwide standard of highest quality.

We are committed to continuing to provide quality product and services as well as innovativeness for customer's satisfaction, and to pursue our established Code of Corporate Governance Practice, with a view to maximizing the Group's total wealth and sustaining our stakeholders' long term value.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 13th March, 2006 to 15th March, 2006, both days inclusive, during which period no transfer of shares of the Company will be recorded.

COMPLIANCE WITH THE CONTINUING DISCLOSURE REQUIREMENT UNDER RULE 13.21 OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED (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.

COMPLIANCE WITH THE CONTINUING DISCLOSURE REQUIREMENT UNDER RULE 13.21 OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "LISTING RULES") *(continued)*

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.

On 8th February, 2006 the Company's wholly-owned subsidiary entered into a loan agreement with a syndicate of banks in respect of a EUR20,000,000 loan facility ("EUR20 Million Loan Facility"). The proceeds of the EUR20 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 and (ii) finance the Company's general working capital requirements. The EUR20 Million Loan Facility should be repaid in full on or before 10th February, 2011.

Under the aforesaid HK$300 Million Loan Facility, EUR60 Million Loan Facility, US$16 Million Loan Facility and EUR20 Million Loan Facility, the following conditions were imposed on Mr. Hans-Joerg SEEBERGER ("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, US$16 Million Loan Facility and EUR20 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.

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, 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 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
Number of shares of HK$1.00 each in the Company								
Hans-Joerg SEEBERGER	—	—	—	478,620,553 *(Note i)*	478,620,553	37.49%	12,000,000 *(Note i)*	38.43%
Peter Ka Yue LEE	530,291	—	8,191,773 *(Note ii)*	—	8,722,064	0.68%	500,000 *(Note ii)*	0.72%
Michael Richard POIX	2,884,666	—	—	—	2,884,666	0.23%	500,000 *(Note iii)*	0.27%
Ho Yin CHIK	18,464	—	—	—	18,464	0%	144,800 *(Note iv)*	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)*

The Company *(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

	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 SEEBERGER	—	—	—	247,166,099 *(Note i)*	247,166,099	56.38%	3,300,000 *(Note iii)*	57.14%
Peter Ka Yue LEE	73,651	—	1,114,838 *(Note ii)*	—	1,188,489	0.27%	250,000 *(Note iii)*	0.33%
Michael Richard POIX	373,398	—	—	—	373,398	0.09%	250,000 *(Note iii)*	0.14%
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 Mr. SEEBERGER's interests in the Company and the Captive Insurance Trust under the SFO, he 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
Number of shares of HK$0.10 each in Tonic								
Hans-Joerg SEEBERGER	–	–	–	194,404,303 *(Note i)*	194,404,303	20.40%	–	20.40%
Peter Ka Yue LEE	–	–	–	–	–	–	2,715,000 *(Note ii)*	0.28%

Notes:

i The shares were held by wholly-owned subsidiaries of the Company. By virtue of Mr. SEEBERGER's interests 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 the Tonic's share option scheme.

iii. All the interests stated above represent long position.

Certain Directors held certain nominee shares in the Company's subsidiaries in trust for the Company as at 30th November, 2005.

Save as disclosed above, as at 30th November, 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 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 AND CHIEF EXECUTIVE OF THE COMPANY

As at 30th November, 2005, no person, other than the Directors or Chief Executive of the Company, held any interests in the Shares or underlying shares of the Company as recorded in the register maintained by the Company under section 336 of the SFO. 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.

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 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)	31,834,400	31,834,400	28/01/1997 to 25/02/2000	*
	44,979,200	44,979,200		

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

SHARE OPTION SCHEME *(continued)*

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, cancelled or lapsed during the period.

Associated Corporation
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 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)	9,075,000	9,075,000	07/01/2000 to 31/01/2000	2.24
	12,875,000	12,875,000		

Note: The outstanding options can be exercised in accordance with the Egana Jewellery Scheme at any time after the date on 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, cancelled or lapsed 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, 2005, the Group employed approximately 8,000 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.

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, 2005.

CORPORATE GOVERNANCE

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company is primarily in compliance with the code provisions set out in the "Code on Corporate Governance Practices" ("the Code") issued by the Stock Exchange in January 2005 during the six months ended 30th November, 2005 with the following three exceptions:-

1. *Separation between the roles "Chairman" and "Chief Executive Officer"*

   The roles of Chairman and Chief Executive Officer of the Company are not separated. The main reasons are the Board believes that it is more effective for the titles "Chairman" and "Chief Executive" be vested in one person based on the Company's ongoing businesses experience, and the trade practice in Continental Europe from which the Company's revenue is mainly derived. Moreover, it is also in line with the conclusion reached by certain independent academic researchers in the United Kingdom and United States that "separation between the roles "Chairman" and "Chief Executive" as a philosophical rule do not improve corporate performance.

2. *Non-Executive Directors should be appointed for specific terms and subject to re-elections*

   All Independent Non-Executive Directors of the Company are not appointed for specific terms but they are subject to retirement by rotations and re-elections at the annual general meeting of the Company at least once every three years.

3. *Every Director should be subject to retirement by rotation at least once every three years*

   All Directors (except the Chairman) of the Company are subject to retirement by rotations and re-elections at the annual general meeting of the Company at least once every three years.

CORPORATE GOVERNANCE *(continued)*

In response to the code provisions of the Code, the Company has adopted a "Code on Corporate Governance" ("EganaGoldpfeil Code") in July 2005 and issued and published a corporate governance report ("the Corporate Governance Report") in the Company's Annual Report 2004/05. During the six months ended 30th November, 2005, the Board has reviewed the Company's corporate governance practices and formed the opinion that those practices are in line with the principles and procedures set out in the EganaGoldpfeil Code. Moreover, there is no significant change occurred since the publication of the Corporate Governance Report.

In the aspect of internal control and risk management system ("the System") implemented by the Company, the Corporate Planning Department, in echoing the "Annual Internal Control and Risk Management System Effectiveness Review" undertaken for the financial year ended 31st May, 2005, has undertaken a continuous review of the performance of the System for the six months ended 30th November, 2005, and presented on behalf of the Board the findings and recommendations in its "6 months Internal Control Review Memorandum" to the members of the Audit Committee in accordance with the written terms of reference of the Audit Committee in the contexts of the Corporate Governance Report. The members of the Audit Committee have reviewed and discussed with management and concurred with the conclusion that "In brief, the prevailing internal control system within the key operating units, and between such units and the headquarters appears to be adequate and effective for the Group's current business activities. There revealed no significant weakness which would require major improvement of the System."

MODEL CODE

The Company has adopted its "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). Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in the Code of Conduct throughout the period under review.

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, 2005.

APPRECIATION

On behalf of the Board, 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, 16th February, 2006