

## REPORT OF THE DIRECTORS

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

### **ULTIMATE HOLDING COMPANY**

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

### **PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS**

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

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 71.

The Directors have declared an interim dividend of HK5.50 cents (2004: HK5.50 cents) per share, totaling approximately HK\$22,724,000 (2004: HK\$17,300,000), which was fully paid on 30th March, 2005.

The Directors recommend the payment of a final dividend of HK1.85 cents (2004: HK4.00 cents) per share to shareholders whose names appear on the register of members of the Company on 16th November, 2005, totaling approximately HK\$7,897,000 (2004: HK\$13,272,000). Together with the interim dividend, total dividends for the year ended 31st May, 2005 amounted to approximately HK\$30,621,000 (2004: HK\$30,572,000).

### **FINANCIAL REVIEW**

The Group’s annual revenue reached HK\$851 million, in line with the first half year revenue of HK\$421 million. We have successfully introduced more branded products in place of the bought-in-finished goods that there revealed a 10% upsurge in the branded sales in FY 04/05 as compared to FY 03/04’s. As such, the bought-in-finished goods which employed a lower profit margin than branded products, reduced by 15% in value. This has the advantage of saving the logistics and delivering cost for enriching the Group’s operating margin.

The Group will continue to increase its focus on branded sales and market extension.

With better product mixture, and production efficiency, the gross margin increased from 38% in FY04 by 4.5% to 42.5% in FY05.

## REPORT OF THE DIRECTORS

### **FINANCIAL REVIEW** *(Cont'd)*

The distribution costs in FY05 were in line with those in FY04, at HK\$158 million and HK\$153 million respectively - thanks to the Group's defined communication and promotion strategies as well as the sales administration model which are proven to bring positive effect to the Group's branding, marketing and sales activities.

The administration expenses remained intact at HK\$153 million for both FY05 and FY04 due to the ongoing review and control of the Group's operational structure and corporate overhead. This is believed essential in this highly cost-competitive economy.

The operating profit margin reached 11%, as compared to 8.8% in FY04, reflecting the continuous improvement in logistic efficiency in our European Technology & Logistic Center in Germany and the gross margin enhancement.

Our revenue and assets were denominated in Euro and Swiss Francs 74%; US\$ and HK\$ 24% and others 2%. Payments and liabilities were in Euro and Swiss Francs 36%; US\$ and HK\$ 59% and others 5%.

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\$74.5 million, a 9% increment over FY04's, showing a net margin of 8.8% up from 7% in FY04 by 1.8%.

As a result, this translated into a positive operating cash inflow to the Group, with an increase in cash and cash equivalents of HK\$218 million, reaching HK\$418 million as of 31st May, 2005.

The shareholders' funds amounted to HK\$660 million, showing a continuous double digit growth (29%).

Working capital was HK\$497 million and the current ratio stood at 2x (as compared to industry average of 1x). This provides a valid 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 80 days (well ahead of the industry norm of 120 days), and the inventory turnover was at 178 days (again compared favorably with the market average of 210 days). These are attributable to the Group's tight credit control policy and ongoing inventory control measures.

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 gearing ratio (interest bearing debt to shareholders' funds) was maintained at 0.67x, in line with FY04's, which is well within the industry yardstick of 1 time.

## REPORT OF THE DIRECTORS

### **FINANCIAL REVIEW** *(Cont'd)*

The leverage (Net debt to EBITDA) was at 0.38x, 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 increased by 19% to exceed HK\$1,313 million in FY05. This is yet to include the value of the brand portfolio of the Group which is reckoned to be in the range of HK\$1 billion — a valuable off-balance sheet asset of the Group.

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.

### **FINANCING ACTIVITIES**

#### **Convertible Bonds Activities**

On 4th February, 2005, The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granted the listing approval to the Company for issue of Tranche 3a Bonds of up to US\$5,000,000 to Merrill Lynch. As at 31st May, 2005, Merrill Lynch has fully exercised its conversion rights to convert the Tranche 3a Bonds into shares of the Company (the "Shares").

On 9th August, 2005, the Stock Exchange granted the listing approval to the Company for the issue of Tranche 4a Bonds of up to US\$5,000,000 to Merrill Lynch. As at 14th September, 2005 (the date of this Annual Report), Merrill Lynch has exercised its conversion rights to convert US\$2,000,000 Tranche 4a Bonds into Shares. The outstanding US\$3,000,000 Tranche 4a Bonds will be expiring on 31st March, 2009.

### **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 payments 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\$96,724,000 (2004: HK\$39,295,000) while its retained profits amounted to approximately HK\$23,509,000 (2004: HK\$16,448,000).

## REPORT OF THE DIRECTORS

### **DONATIONS**

Charitable and other donations made by the Group during the year amounted to approximately HK\$257,000 (2004: HK\$22,570).

### **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 the 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 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 AN ASSOCIATED COMPANY**

Particulars of the Company's subsidiaries and associated company at 31st May, 2005 are set out in Notes 15 and 16 to the accounts respectively.

## REPORT OF THE DIRECTORS

### SHARE OPTION SCHEME

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

1. Purpose of the Scheme As 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 12,875,000 Shares, representing approximately 3.02% 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 and ending on the date of expiry of the 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
  - 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 to 10 were not previously exercised.  
(inclusive)

## REPORT OF THE DIRECTORS

### SHARE OPTION SCHEME (Cont'd)

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

On 1st September, 2001, amendments to Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") on share option schemes came into effect. If the Company wishes to continue to grant options under the 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 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 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
Hartmut VAN DER STRAETEN	250,000	250,000 <i>(note ii)</i>	— <i>(note ii)</i>	12/01/2000	2.24
Employees under continuous contracts (excluding Directors)	9,075,000	—	9,075,000	07/01/2000 to 31/01/2000	2.24
	<u>13,125,000</u>	<u>250,000</u>	<u>12,875,000</u>		

## REPORT OF THE DIRECTORS

### **SHARE OPTION SCHEME** *(Cont'd)*

*Notes:*

- i. The outstanding options can be exercised in accordance with the 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 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.
- ii. Mr. Hartmut VAN DER STRAETEN ceased to be a Director of the Company on 18th November, 2004 and the 250,000 options granted to him were lapsed on the same day.

No options 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 corporation 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)

Shunji SAEKI

Hartmut VAN DER STRAETEN (resigned on 18th November, 2004)

Michael BOMMERS

#### Independent Non-Executive Directors

Charles Cho Chiu SIN

Eduardo Tang Lung LAU

Professor Zhengfu WANG

Andy Yick Man NG (appointed on 13th July, 2005)

In accordance with Article 99 of the Company's Articles of Association, Mr. Andy Yick Man NG shall hold office until the forthcoming annual general meeting of the Company, and being eligible, offer himself for re-election.

In accordance with Article 116 of the Company's Articles of Association, Mr. Peter Ka Yue LEE, Mr. Michael Richard POIX and Mr. David Wai Kwong WONG 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 service agreements 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.



## REPORT OF THE DIRECTORS

### **DIRECTORS' SERVICE CONTRACTS** *(Cont'd)*

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.

Mr. Shunji SAEKI entered into a service agreement with the Company and shall continue thereafter unless and until the agreement is terminated.

Mr. Michael BOMMERS entered into a consultancy agreement with the Company and shall continue thereafter unless and until the agreement is terminated.

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 payment 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.

### **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 EganaGoldpfeil (hereinafter collectively referred to as the "EganaGoldpfeil Group") and 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.

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

#### **Executive Directors** *(Cont'd)*

**Peter Ka Yue LEE (“Mr. Lee”)**, aged 58, joined the EganaGoldpfeil Group in 1978 and has been an Executive Director of the Company since May 1997. Mr. Lee also serves as an Executive Director of EganaGoldpfeil. He is responsible for the financial and general management of the Group’s Hong Kong operations. Before joining the EganaGoldpfeil 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 EganaGoldpfeil Group in October 1988 and has been an Executive Director of the Company since May 1997. Mr. Poix also serves as an Executive Director of EganaGoldpfeil. He is responsible for the day-to-day operations of the EganaGoldpfeil Group’s business and ensuring compliance with the EganaGoldpfeil 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 EganaGoldpfeil Group in 1985 and has been an Executive Director of the Company since November 2003. He is also an Executive Director of EganaGoldpfeil. 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 EganaGoldpfeil 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 November 1997. 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)*

#### **Executive Directors** *(Cont'd)*

**Shunji SAEKI**, aged 55, has been with the EganaGoldpfeil Group for more than 27 years and is responsible for overall sales, marketing and brand control in Asia and the Pacific Region. He graduated from Kassel University in Germany with a diploma in industrial design and has extensive experience in sourcing pearls.

**Michael BOMMERS**, aged 50, joined the EganaGoldpfeil Group in 1994 and has been an Executive Director of the Company since December 1997. He is responsible for overseeing the financial reporting functions, the development of the Group's activities in Europe and was involved in the merging and restructuring of the European operations of the EganaGoldpfeil Group. He is currently the Managing Director of EganaGoldpfeil Europe (Holdings) GmbH, a wholly-owned subsidiary of EganaGoldpfeil. Prior to joining the EganaGoldpfeil Group, he worked in the corporate finance division of West Merchant Bank in Germany and was involved in advising the EganaGoldpfeil Group on the acquisition of Egana Deutschland GmbH, a company engaged in the distribution of timepieces and jewellery prior to its corporate reorganisation.

#### **Independent Non-Executive Directors**

**Charles Cho Chiu SIN, OBE ("Mr. Sin")**, aged 69, has been an Independent Non-Executive Director of the Company since November 1997. He is a non-executive director of Tian Teck Land Limited and Associated International Hotels Limited. He is a solicitor and notary public and holds a Master of Arts degree from the University of Cambridge. Mr. Sin was the Chairman of the Kam Ngan Stock Exchange from 1985 to 1986 and the Stock Exchange from 1987 to 1988. He was a former Chairman of the Home Ownership Scheme Committee and the Management Committee of the Hong Kong Housing Authority. He was also a former member of the Urban Council and the Hong Kong Housing Authority.

**Eduardo Tang Lung LAU ("Mr. Lau")**, aged 48, has been an Independent Non-Executive Director of the Company since March 2000. He has over 24 years' experience in the footwear business and consumer business for the US market. He has demonstrated a fine record in the growing retail and brand name products in Hong Kong and he is well connected in the industry. Mr. Lau is also a director and shareholder of three private companies in Hong Kong.

**Professor Zhengfu WANG ("Professor Wang")**, aged 53, joined the Group in 1997 as a consultant and is responsible for overseeing and advising on the Group's strategic and business development in the People's Republic of China. He became an Independent Non-Executive Director of the Company in September 2000. Prior to joining the Group, he was involved in the corporate restructuring of certain state-owned enterprises and advising Chinese-foreign joint ventures. Professor Wang holds a Bachelor degree in Economics and had further study in Europe. He is well conversant with international business and economics.

## REPORT OF THE DIRECTORS

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

#### Independent Non-Executive Directors (Cont'd)

**Mr. Andy Yick Man NG ("Mr. Ng")**, aged 48, was appointed as an Independent Non-Executive Director of the Company on 13th July, 2005. Mr. Ng also serves as an Independent Non-Executive Director of EganaGoldpfeil and 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.

Biographical details of senior management of the Group are set out in Senior Executive Management section on page 6.

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

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 corporation (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
<b>Number of shares of HK\$0.50 each in the Company</b>								
Hans-Joerg SEEBERGER	—	—	—	247,166,099 (Note i)	247,166,099	59.82%	3,300,000 (Note iii)	60.62%
Peter Ka Yue LEE	73,651	—	1,114,838 (Note ii)	—	1,188,489	0.29%	250,000 (Note iii)	0.35%
Michael Richard POIX	373,398	—	—	—	373,398	0.09%	250,000 (Note iii)	0.15%
Ho Yin CHIK	2,160	—	—	—	2,160	0%	—	0%

## 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 CORPORATION (Cont'd)

#### The Company (Cont'd)

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 SEEGER and his family. 246,121,144 shares were registered in the name of EganaGoldpfeil and its nominee. By virtue of his interest in EganaGoldpfeil and the Captive Insurance Trust under the SFO, Mr. Hans-Joerg SEEGER 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 the Company's Executive Share Option Scheme.

#### Associated Corporation

##### EganaGoldpfeil

	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total Interests	Total Interests as % of the issued share capital	Underlying shares (share options)	Total Interests (including underlying shares) as % of the issued share capital
<b>Number of shares of HK\$1.00 each in EganaGoldpfeil</b>								
Hans-Joerg SEEGER	—	—	—	478,620,553 (Note i)	478,620,553	37.65%	12,000,000 (Note iii)	38.59%
Peter Ka Yue LEE	530,291	—	8,191,773 (Note ii)	—	8,722,064	0.69%	500,000 (Note iii)	0.73%
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%
Shunji SAEKI	53,000	8,640	—	—	61,640	0%	179,000 (Note v)	0.02%

## 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 CORPORATION** *(Cont'd)*

#### **Associated Corporation** *(Cont'd)*

#### **EganaGoldpfeil** *(Cont'd)*

*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 EganaGoldpfeil's Executive Share Option Scheme.
- iv. The options, exercisable at HK\$3.45 per share, were granted pursuant to EganaGoldpfeil's Executive Share Option Scheme.
- v. 99,000 and 80,000 options, exercisable at HK\$1.28 and HK\$2.11 per share respectively, were granted pursuant to EganaGoldpfeil's Executive Share Option Scheme.

Certain Directors held 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 corporation 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.

#### **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.

## REPORT OF THE DIRECTORS

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

As at 31st May, 2005, the following persons, other than the Directors and Chief Executive of the Company, held 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:

	Corporate Interests	Total Interests	Total Interests as % of issued share capital	Underlying Shares (including convertible bonds)	Total Interests (including underlying shares) as % of the issued share capital
<b>Number of shares of HK\$0.50 each in the Company</b>					
Glorious Concept Limited ( <i>Note i</i> )	67,121,600	67,121,600	16.25%	—	16.25%
Eco-Haru Mfr. Holdings Limited ( <i>Note i</i> )	67,121,600	67,121,600	16.25%	—	16.25%
EganaGoldpfeil ( <i>Note ii</i> )	246,121,144	246,121,144	59.57%	—	59.57%
Merrill Lynch & Co Inc ( <i>Note iii</i> )	8,794,583	8,794,583	2.13%	9,067,270	4.32%

*Notes:*

- i. Glorious Concept Limited is a wholly-owned subsidiary of Eco-Haru Mfr. Holdings Limited, which in return is wholly-owned by EganaGoldpfeil.
- ii. The interest includes 178,999,544 and 67,121,600 shares held by EganaGoldpfeil and Glorious Concept Limited respectively.
- iii. These shares were beneficially held by Merrill Lynch & Co Inc.
- iv. All the interests stated above represent long positions.

Save as disclosed above, as at 31st May, 2005, the Company had not been notified by any other person (other than the Directors and 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, the five largest customers in aggregate accounted for approximately 36% of the total sales of the Group and the largest customer accounted for approximately 14% of the total sales of the Group.

During the year, the five largest suppliers in aggregate accounted for approximately 45% of the total purchases of the Group and the largest supplier accounted for approximately 13% of the total purchases of the Group.

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.

## REPORT OF THE DIRECTORS

### EMPLOYEES

As at 31st May, 2005, the Group employed approximately 3,800 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.

### CONNECTED TRANSACTIONS

Details of the connected transactions for the year are set out in Note 35 to the accounts. The Independent Non-Executive Directors of the Company have reviewed the connected transactions set out in Note 35(a) and confirmed that these transactions were 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 agreements governing the connected transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and
4. the aggregate values of the connected transactions during the periods up to the financial year ended 31st May, 2005 have not exceeded the relevant annual cap. set by the Company.

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

1. The connected transactions have been:
  - (i) approved by the Board of Directors;
  - (ii) entered into in accordance with the pricing policies as stated in the respective agreements; and
  - (iii) entered into in accordance with the relevant agreements governing the transactions.
2. The aggregate values of the connected transactions have not exceeded the relevant annual cap. set by the Company.

Save as disclosed in Note 35 to the accounts, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.



## 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 61 to 69 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 was contained in the Corporate Governance Report.

### **REMUNERATION COMMITTEE**

The Remuneration Committee, comprising four 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 Remuneration Committee was 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 and 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.

### **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 EVENT**

Details of significant subsequent event is set out in Note 36 to the accounts.

## REPORT OF THE DIRECTORS

### 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  
Egana Jewellery & Pearls Limited



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

Hong Kong, 14th September, 2005