

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, 2006.

ULTIMATE HOLDING COMPANY

The Directors consider EganaGoldpfeil (Holdings) Limited (“EganaGoldpfeil”), a company incorporated in the Cayman Islands with limited liability 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 brand names 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 5 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 29.

The Directors have declared an interim dividend of HK2.50 cents (2005: HK5.50 cents) per share, totaling approximately HK\$11,264,000 (2005: HK\$22,724,000), which was fully paid on 29th March, 2006.

The Directors did not recommend the payment of any final dividend for the year ended 31st May, 2006.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in Note 33 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, 2006, the Company’s share premium amounted to approximately HK\$114,072,000 (2005: HK\$96,724,000) while its retained profits amounted to approximately HK\$8,272,000 (2005: HK\$23,509,000).

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately HK\$42,000 (2005: HK\$257,000).

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in Note 15 to the accounts.

REPORT OF THE DIRECTORS

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 32 to the accounts.

CONVERTIBLE BONDS

Details of the terms of the convertible bonds are set out in Note 30 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, 2006 are set out in Notes 28 and 29 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 as at 31st May, 2006 are set out in Notes 18 and 19 to the accounts respectively.

SHARE OPTION SCHEME

The Company

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

- | | |
|---|---|
| 1. Purpose of the Scheme | As an incentive to executive management and employees. |
| 2. Participants of the Scheme | Eligible full-time employees including the Executive Directors of the Company and its subsidiaries. |
| 3. Total number of shares available for issue under the Scheme and the percentage of issued share capital at 21st September, 2006 | 9,075,000 shares, representing approximately 2.01% 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. |

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (continued)

The Company (continued)

- | | | | |
|----|--|---------------------------------|--|
| 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:
to 10
(inclusive) | all shares so comprised in respect of which the options were not previously exercised. |
| 7. | The amount payable on acceptance of the options | | Nominal amount of HK\$1.00 upon acceptance of the options. |
| 8. | The basis of determining the exercise price | | The exercise price is the higher of:

(a) 85% of the average of closing prices of shares on the Stock Exchange of five business days immediately preceding the date of offer to grant the options; and

(b) the nominal value. |
| 9. | The remaining life of the Scheme | | The Scheme will expire on 23rd July, 2008. |

On 6th July, 2006, EganaGoldpfeil put forward to the independent shareholders of the Company a proposal regarding a proposed privatization and withdrawal of listing of the Company's shares on the Stock Exchange. The proposal will be implemented by way of a scheme of arrangement under Section 86 of the Companies Law and the resolution to approve the scheme of arrangement has been passed on 11th September, 2006. Conditional upon the scheme of arrangement becoming effective (which is expected to be on 23rd October, 2006), EganaGoldpfeil will make an option offer to the optionholders of the Company to cancel all the outstanding options granted under the Scheme. If the scheme of arrangement does not become effective or lapses, all unexercised options will remain unaffected and will be exercisable during their relevant exercisable periods pursuant to the terms of the Scheme.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (continued)

The Company (continued)

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 year:

Directors	Number of shares comprising the options outstanding at the beginning of the year	Number of shares comprising the options outstanding at the end of the year	Date granted	Subscription price per share HK\$
Hans-Joerg SEEGERGER	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
	<u>12,875,000</u>	<u>12,875,000</u>		

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) On 6th July, 2006, an aggregate of 3,800,000 options granted to Messrs. Seeberger, Lee and Poix were cancelled at no consideration in light of the proposed privatization.

No options were granted, exercised, cancelled or lapsed during the year.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(continued)*

EganaGoldpfeil

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

- | | | | | | | | | | | | |
|---|--|---------|--|---------|---|---------|--|---------|---|---------------------------------|--|
| 1. Purpose of the EganaGoldpfeil Scheme | As an incentive to executive management and employees. | | | | | | | | | | |
| 2. Participants of the EganaGoldpfeil Scheme | Eligible full-time employees including the Executive Directors of EganaGoldpfeil and its subsidiaries. | | | | | | | | | | |
| 3. Total number of shares available for issue under the EganaGoldpfeil Scheme and the percentage of issued share capital at 21st September, 2006 | 44,819,200 shares, representing approximately 3.49% of the issued share capital of EganaGoldpfeil as at the date of this Annual Report. | | | | | | | | | | |
| 4. Maximum entitlement of each participant under the EganaGoldpfeil Scheme | 25% of the aggregate number of shares issued and issuable under the EganaGoldpfeil 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. | | | | | | | | | | |
| 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 | <table><tbody><tr><td>Year 1:</td><td>up to 20% of shares comprised in the options at their dates of grant (or if applicable as subsequently adjusted in accordance with the EganaGoldpfeil Scheme);</td></tr><tr><td>Year 2:</td><td>up to 40% of shares so comprised, less the percentage of shares in respect of which the options were exercised in Year 1;</td></tr><tr><td>Year 3:</td><td>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;</td></tr><tr><td>Year 4:</td><td>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</td></tr><tr><td>Year 5:
to 10
(inclusive)</td><td>all shares so comprised in respect of which the options were not previously exercised.</td></tr></tbody></table> | 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 EganaGoldpfeil 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:
to 10
(inclusive) | all shares so comprised in respect of which the options were not previously exercised. |
| 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 EganaGoldpfeil 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:
to 10
(inclusive) | all shares so comprised in respect of which the options were not previously exercised. | | | | | | | | | | |

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (continued)

EganaGoldpfeil (continued)

7. The amount payable on acceptance of the options Nominal amount of HK\$1.00 upon acceptance of the options.
8. The basis of determining the exercise price The exercise price is the higher of:
- (a) 85% of the average of closing prices of shares on the Stock Exchange of five business days immediately preceding the date of offer to grant the options; and
- (b) the nominal value.
9. The remaining life of the EganaGoldpfeil Scheme The EganaGoldpfeil Scheme expired on 31st May, 2003 but the options granted during its tenure shall remain exercisable within 10 years from the date on which the options were granted.

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

Directors	Number of shares comprising the options outstanding at the beginning of the year	Number of options lapsed	Number of shares comprising the options outstanding at the end of the year	Date granted	Subscription price per share HK\$
Hans-Joerg SEEBERGER	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	160,000	31,674,400	28/01/1997 to 25/02/2000	*
	<u>44,979,200</u>	<u>160,000</u>	<u>44,819,200</u>		

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

Note: The outstanding options can be exercised in accordance with the EganaGoldpfeil 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.

REPORT OF THE DIRECTORS

Except as disclosed above, no options were granted, exercised, cancelled or lapsed during the year.

On 1st September, 2001, amendments to Chapter 17 of the Listing Rules on share option schemes came into effect. If the Company and EganaGoldpfeil wish to continue to grant options under their respective scheme on or after 1st September, 2001, they 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.

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

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
Shunji SAEKI
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)

The Company has received from each of the Independent Non-Executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules considers all Independent Non-Executive Directors independent.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

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

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

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

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

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

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 that exceeds three years or which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Hans-Joerg SEEBERGER, aged 63, is the founder, Chairman and Chief Executive of the Company and EganaGoldpfeil. He has more than 30 years' experience in the timepiece, jewellery and leather business in Asia and Europe. He is responsible for the Group's overall strategic planning, objectives setting and corporate development as in the acquisitions of (inter alia) Goldpfeil AG in 1998, Junghans Group in 2000 and Salamander in 2005 as well as strategic alliance with other prominent players in the luxury segment. He also oversees the Group's operations and business development worldwide including communication programs. As the Chairman of the Group, he is responsible for managing Board affairs and ensuring the Board discharges its functions effectively.

Mr. Peter Ka Yue LEE, aged 59, 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 operational and general management of the EganaGoldpfeil Group's Hong Kong and Mainland China 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. In 2005, Mr. Lee was awarded the Honorary Associate from the Hong Kong Baptist University in recognition of his contribution to the community.

Mr. Michael Richard POIX, aged 54, 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.

Mr. Ho Yin CHIK, aged 51, 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 EganaGoldpfeil Group. He has over 25 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, aged 48, 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. Mr. Wong has been a Director of the Company since 1997. He is also an Executive Director of EganaGoldpfeil and Incutech Investments Limited. He oversees the EganaGoldpfeil Group's corporate planning and strategic alliance project as well as the internal control and risk management functions. 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. In 2005, Mr. Wong was awarded the Honorary Associate from the Hong Kong Baptist University in recognition of his contribution to the community.

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Executive Directors *(continued)*

Mr. Shunji SAEKI, aged 56, has been with the EganaGoldpfeil Group for more than 28 years and, as a Director of Business Development, he is responsible for overall sales, marketing and brand management in Asia and the Pacific region. Mr. Saeki graduated from Kassel University in Germany with a diploma in industrial design and has extensive experience in sourcing pearls.

Mr. Michael BOMMERS, aged 51, joined the EganaGoldpfeil Group in 1994. He is responsible for overseeing the financial reporting functions and the development of the EganaGoldpfeil Group's activities in Europe. Prior to joining the Group, Mr. Bommers worked in the corporate finance division of West Merchant Bank in Germany and was involved in advising the EganaGoldpfeil Group on its acquisition of Egana Deutschland GmbH, a company engaged in the distribution of timepieces and jewellery prior to its reorganisation.

Independent Non-Executive Directors

Mr. Charles Cho Chiu SIN, OBE, aged 70, 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.

Mr. Eduardo Tang Lung LAU, aged 49, 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, aged 54, joined the Group in 1997 as a consultant and is responsible for overseeing and advising on the EganaGoldpfeil Group's strategic and business development in China. He became an Independent Non-Executive Director of the Company in September 2000. Prior to joining the EganaGoldpfeil 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.

Mr. Andy Yick Man NG, aged 49, 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.

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Senior Management

Ms. Kirsten DANKERT, aged 38, joined the Group in 1997. She is the Sales and Marketing Director of Oro Design Limited and is responsible for the business development, product design and brand management of the Group.

Mr. Christian RASP, aged 39, is the Group Deputy Executive Director of EganaGoldpfeil. He is responsible for overseeing the Hong Kong and the Greater China business operations. He joined the EganaGoldpfeil Group in 1999 and oversaw the EganaGoldpfeil Group's business and corporate development in Europe prior to his assignment to Asia.

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, 2006, 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
Number of shares of HK\$0.50 each in the Company								
Hans-Joerg SEEBERGER	—	—	—	247,166,099 <i>(Note i)</i>	247,166,099	54.86%	3,300,000 <i>(Note iii)</i>	55.59%
Peter Ka Yue LEE	73,651	—	1,114,838 <i>(Note ii)</i>	—	1,188,489	0.26%	250,000 <i>(Note iii)</i>	0.32%
Michael Richard POIX	373,398	—	—	—	373,398	0.08%	250,000 <i>(Note iii)</i>	0.14%
Ho Yin CHIK	2,160	—	—	—	2,160	0%	—	0%

Notes:

- 1,044,955 shares were registered in the name of Peninsula International Limited ("PIL") 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. 246,121,144 shares were registered in the name of EganaGoldpfeil, its nominee and Glorious Concept Limited, a wholly owned subsidiary of EganaGoldpfeil. By virtue of his interest in EganaGoldpfeil through PIL and the Captive Insurance Trust, Mr. Seeberger was deemed to be interested in these shares.
- 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\$2.24 per share, were granted pursuant to the Scheme. Such options were cancelled at no consideration on 6th July, 2006 in light of a scheme of arrangement put forward to the Company's independent shareholders by EganaGoldpfeil on 6th July, 2006.
- On 6th July, 2006, Messrs. Seeberger, Lee, Poix and Chik irrevocably donated 1,044,955 shares, 1,188,489 shares, 373,398 shares and 2,160 shares respectively to an approved charitable organization in Hong Kong and are no longer interested in these shares.

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 *(continued)*

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
Number of shares of HK\$1.00 each in EganaGoldpfeil								
Hans-Joerg SEEGER	—	—	—	478,620,553 <i>(Note i)</i>	478,620,553	37.22%	12,000,000 <i>(Note iii)</i>	38.16%
Peter Ka Yue LEE	530,291	—	8,191,773 <i>(Note ii)</i>	—	8,722,064	0.68%	500,000 <i>(Note iii)</i>	0.72%
Michael Richard POIX	2,884,666	—	—	—	2,884,666	0.22%	500,000 <i>(Note iii)</i>	0.26%
Ho Yin CHIK	18,464	—	—	—	18,464	0%	144,800 <i>(Note iv)</i>	0.01%
Shunji SAEKI	53,000	8,640	—	—	61,640	0%	179,000 <i>(Note v)</i>	0.02%

Notes:

- i. These shares were registered in the name of PIL 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.
- ii. These shares were beneficially owned by Joshua Limited, a company which was wholly and beneficially owned by Mr. Peter Ka Yue LEE.
- iii. The options, exercisable at HK\$2.11 per share, were granted pursuant to the EganaGoldpfeil Scheme.
- iv. The options, exercisable at HK\$3.45 per share, were granted pursuant to the EganaGoldpfeil Scheme.
- v. 99,000 and 80,000 options, exercisable at HK\$1.28 and HK\$2.11 per share respectively, were granted pursuant to the EganaGoldpfeil Scheme.

Certain Directors held nominee shares in subsidiaries in trust for the Company or its subsidiaries as at 31st May, 2006.

Save as disclosed above, as at 31st May, 2006, 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 Issuers (the "Model Code") or which are required to be entered in the register under section 352 of the SFO.

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, 2006, 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
Number of shares of HK\$0.50 each in the Company			
Glorious Concept Limited (<i>Note i</i>)	67,121,600	67,121,600	14.90%
Eco-Haru Mfr. Holdings Limited (<i>Note i</i>)	67,121,600	67,121,600	14.90%
EganaGoldpfeil (<i>Note ii</i>)	246,121,144	246,121,144	54.63%
Forum European Smallcaps GmbH	23,536,000	23,536,000	5.22%

Notes:

- i. Glorious Concept Limited is a wholly-owned subsidiary of Eco-Haru Mfr. Holdings Limited, which 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 Forum European Smallcaps GmbH.
- iv. All the interests stated above represent long positions.

Save as disclosed above, as at 31st May, 2006, 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.

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.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers in aggregate accounted for approximately 41.40% of the total sales of the Group and the largest customer accounted for approximately 11.97% of the total sales of the Group.

During the year, the five largest suppliers in aggregate accounted for approximately 45.67% of the total purchases of the Group and the largest supplier accounted for approximately 12.87% of the total purchases of the Group.

As at 31st May, 2006, 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, 2006, the Group employed approximately 3,400 staff. Remuneration is determined by reference to the employees' performance, qualifications, relevant working experiences and the prevailing market conditions. Performance-based bonus and a retention bonus system are in place to motivate and reward employees to achieve the Company's business performance targets.

CONTINUING CONNECTED TRANSACTIONS

Details of the continuing connected transactions for the year are set out in Note 39 to the accounts. The Independent Non-Executive Directors of the Company have reviewed the continuing connected transactions set out in Note 39 and confirmed that these transactions had been 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 them 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 continuing connected transactions during the year ended 31st May, 2006 did not exceed the relevant annual cap and each of the percentage ratios (other than the profits ratio) calculated pursuant to Rule 14.07 of the Listing Rules is on an annual basis less than 2.5%.

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

1. The continuing connected transactions had been:
 - (i) approved by the Board of Directors;
 - (ii) entered into in accordance with the pricing policies as stated in the relevant agreements; and
 - (iii) entered into in accordance with the relevant agreements governing them.
2. The aggregate value of the continuing connected transactions during the year ended 31st May, 2006 did not exceed the relevant annual cap disclosed in the Company's announcement dated 13th April, 2005.

Save as disclosed above, there was no other transaction that was needed to be disclosed as continuing connected transactions in accordance with the requirements of the Listing Rules.

REPORT OF THE DIRECTORS

PUBLIC FLOAT

On the basis of information that is publicly available to the Company and within the knowledge of the Directors, the Company has complied with the public float requirements of the Listing Rules as at the date of this Annual Report.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors has interests in any business that competes or are likely to compete, either directly or indirectly, with the business of the Company during the year ended 31st May, 2006 and up to the date of this Annual Report.

SUBSEQUENT EVENT

Details of significant subsequent events are set out in Note 40 to the accounts.

AUDITORS

PricewaterhouseCoopers acted as auditors of the Company up to and including the year ended 31st May, 2003. PricewaterhouseCoopers resigned on 28th May, 2004 and the Directors appointed RSM Nelson Wheeler to fill the casual vacancy. RSM Nelson Wheeler audited the Company's accounts for the year ended 31st May 2004. RSM Nelson Wheeler resigned on 11th April, 2005 and the Directors appointed Baker Tilly Hong Kong Limited to fill the casual vacancy. Baker Tilly Hong Kong Limited audited the Company's accounts for the years ended 31st May, 2005 and 31st May, 2006 respectively.

On behalf of the Board
Egana Jewellery & Pearls Limited
Hans-Joerg SEEBERGER
Chairman and Chief Executive

Hong Kong, 21st September, 2006