

REPORT OF THE DIRECTORS

The Directors have the pleasure to submit their report together with the audited accounts of EganaGoldpfeil (Holdings) Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ended 31st May, 2006.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

An analysis of the Group’s turnover and segment information for the year by business and geographical segments is set out in Note 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 112.

The Directors have declared an interim dividend of HK2.80 cents (2005: HK2.50 cents) per share, totaling approximately HK\$36,003,000 (2005: HK\$30,830,000), which was fully paid on 29th March, 2006.

The Directors recommend the payment of a final dividend of HK5.00 cents (2005: HK3.50 cents) per share to shareholders whose names appear on the register of members of the Company on 17th November, 2006, totaling approximately HK\$64,291,000 (2005: HK\$44,595,000). Such final dividend shall be satisfied by the allotment of new shares credited as fully paid, with cash option in lieu of new shares or a combination of both. Together with the interim dividend, total dividends for the year ended 31st May, 2006 amounted to approximately HK\$100,294,000 (2005: HK\$75,425,000).

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 payment of dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or payment of dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company’s Articles of Association, no dividend shall be paid other than out of retained profits of the Company or the amount held in any share premium account. As at 31st May, 2006, the Company’s share premium amounted to approximately HK\$372,153,000 (2005: HK\$363,311,000) while its retained profits amounted to approximately HK\$69,115,000 (2005: HK\$47,741,000).

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately HK\$621,000 (2005: HK\$434,000).

FIXED ASSETS

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

SHARE CAPITAL

Details of 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 of the Group 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.

REPORT OF THE DIRECTORS

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 ASSOCIATED COMPANIES

Particulars of the Company's subsidiaries and associated companies as at 31st May, 2006 are set out in Notes 19 and 20 to the accounts respectively.

SHARE OPTION SCHEME

The Company

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

1. Purpose of the Scheme As an incentive to executive management and employees.
2. Participants of the Scheme Eligible full-time employees including the Executive Directors of the Company and its subsidiaries.
3. Total number of shares available for issue under the Scheme and the percentage of issued share capital at 21st September, 2006 44,819,200 shares, representing approximately 3.49% 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.
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.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (continued)

The Company (continued)

8. The basis of determining the exercise price The exercise price is the higher of:
- (a) 85% of the average of closing prices of shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) of five business days immediately preceding the date of offer to grant the options; and
- (b) the nominal value.
9. The remaining life of the Scheme The Scheme expired on 31st May, 2003 but the options granted during the tenure of the Scheme shall remain exercisable within 10 years from the date on which the options were granted.

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 Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) during the year:

Directors	Number of shares comprising the options outstanding at the beginning of the year	Number of options lapsed	Number of shares comprising the options outstanding at the end of the year	Date granted	Subscription price per share HK\$
Hans-Joerg SEEBERGER	12,000,000	—	12,000,000	09/01/2000	2.11
Peter Ka Yue LEE	500,000	—	500,000	09/01/2000	2.11
Michael Richard POIX	500,000	—	500,000	17/01/2000	2.11
Ho Yin CHIK	144,800	—	144,800	23/03/1997	3.45
Employees under continuous contracts (excluding Directors)	31,834,400	160,000	31,674,400	28/01/1997 to 25/02/2000	*
	44,979,200	160,000	44,819,200		

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

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

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

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(continued)*

Egana Jewellery & Pearls Limited (“Egana Jewellery”)

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

1. Purpose of the Egana Jewellery Scheme As an incentive to executive management and employees.
2. Participants of the Egana Jewellery Scheme Eligible full-time employees including the executive directors of Egana Jewellery and its subsidiaries.
3. Total number of shares of Egana Jewellery available for issue under the Egana Jewellery Scheme and the percentage of issued share capital at 21st September, 2006 9,075,000 shares, representing approximately 2.01% of the issued share capital of Egana Jewellery as at the date of this Annual Report.
4. Maximum entitlement of each participant under the Egana Jewellery Scheme 25% of the aggregate number of shares issued and issuable under the Egana Jewellery Scheme.
5. The period within which shares must be taken up under an option Within a maximum period of 10 years commencing from the date of grant of such options and ending on the date of expiry of the Egana Jewellery Scheme.
6. The minimum period for which an option must be held before it can be exercised and the percentage of the shares comprising the options that can be exercised during the period
 - Year 1: up to 20% of shares comprised in the options at their dates of grant (or if applicable as subsequently adjusted in accordance with the Egana Jewellery Scheme);
 - 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 of Egana Jewellery on the Stock Exchange of five business days immediately preceding the date of offer to grant the options; and
 - (b) the nominal value.
9. The remaining life of the Egana Jewellery Scheme The Egana Jewellery Scheme will expire on 23rd July, 2008.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(continued)*

Egana Jewellery & Pearls Limited (“Egana Jewellery”) *(continued)*

On 6th July, 2006, the Company put forward to the independent shareholders of Egana Jewellery a proposal regarding a proposed privatization and withdrawal of listing of Egana Jewellery 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), the Company will make an option offer to the optionholders of Egana Jewellery to cancel all the outstanding options granted under the Egana Jewellery 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 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 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 shares comprising the options outstanding at the end of the year	Date granted	Subscription price per share HK\$
Hans-Joerg SEEBERGER	3,300,000	3,300,000	09/01/2000	2.24
Peter Ka Yue LEE	250,000	250,000	09/01/2000	2.24
Michael Richard POIX	250,000	250,000	17/01/2000	2.24
Employees under continuous contracts (excluding Directors)	9,075,000	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 Egana Jewellery Scheme at any time after the date upon which the options are granted but not later than 10 years from the date on which the Egana Jewellery Scheme was adopted, provided that up to 20%, 40%, 60% and 80% of the original number of shares comprising the options can be exercised in the 1st, 2nd, 3rd and 4th year from the date granted, respectively.
- (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 of Egana Jewellery 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 Egana Jewellery 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.

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

Independent Non-Executive Directors

Professor Udo GLITTENBERG
Dr. Goetz Reiner WESTERMEYER
Andy Yick Man NG

In accordance with Article 92 of the Company's Articles of Association, Mr. David Wai Kwong WONG and Professor Udo GLITTENBERG 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 from each of our Independent Non-Executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers all Independent Non-Executive Directors independent.

DIRECTORS' SERVICE CONTRACTS

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

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

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

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

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

Save as disclosed above, none of the Directors has a service contract which has 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 a 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 Egana Jewellery. 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 Group in 1978 and has been an Executive Director of the Company since December 1990. Mr. Lee also serves as an Executive Director of Egana Jewellery. He is responsible for the operational and general management of the Group's Hong Kong and Mainland China operations. Before joining the Group, he worked as an executive in marketing and corporate management in several international companies in the consumer and manufacturing industries. Mr. Lee is also an Executive Director of Tonic Industries Holdings Limited and a director of The Hong Kong Watch Manufacturers Association Limited. 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 Group in October 1988 and has been an Executive Director of the Company since January 1992. Mr. Poix also serves as an Executive Director of Egana Jewellery. He is responsible for the day-to-day operations of the Group's business and ensuring compliance with the Group's obligations under its brandname licences. Mr. Poix previously worked with a large German mail order house, a large German department store organisation as a foreign trader in their trade departments and a retail company in Germany as the head of the purchasing department for watches, jewellery and electronics.

Mr. Ho Yin CHIK, aged 51, joined the Group in 1985 and has been an Executive Director of the Company since November 2003. He is also an Executive Director of Egana Jewellery. Mr. Chik is the Group Treasurer and is responsible for the financial and treasury operations of the Group. He has over 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 of the Association of Chartered Certified Accountants and a Certified Public Accountant. Mr. Wong has been a Director of the Company since 1992, and also an Executive Director of Egana Jewellery and Incutech Investments Limited. He oversees the 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)*

Independent Non-Executive Directors

Professor Udo GLITTENBERG, aged 62, has been an Independent Non-Executive Director of the Company since July 1992. He is a professor in business administration, having studied in the United States and Europe. Before establishing two private business schools in Germany, he was the chief executive of a steel and plastics manufacturing group and a team leader in a Chinese-German government co-operation project in Shanghai, China.

Dr. Goetz Reiner WESTERMEYER, aged 65, has been an Independent Non-Executive Director of the Company since July 1992. He was previously the managing director of a major Japanese consumer electronics company based in Düsseldorf, Germany, for over 14 years, and had worked as an executive in charge of the consumer electronics division of a major conglomerate headquartered in Turkey. He is currently the executive of a German organisation representing certain interests from Eastern Europe for consumer electronics products. He obtained his doctorate in joint venture management from Munich University. He has extensive experience in the import and distribution of consumer electronic products and other consumer products throughout Europe.

Mr. Andy Yick Man NG, aged 49, has been an Independent Non-Executive Director of the Company since June 2004. He was appointed as an Independent Non-Executive Director of Egana Jewellery on 13th July 2005. Mr. Ng is also an Independent Non-Executive Director of Incutech Investments Limited. He has over 23 years' experience in the fields of finance, accounting, taxation and corporate governance. He is currently a Teaching Fellow of the Faculty of Business Administration of The Chinese University of Hong Kong and is a fellow member of The Hong Kong Institute of Certified Public Accountants, The Taxation Institute of Hong Kong and CPA Australia.

Senior Management

Mr. Michael BOMMERS, aged 51, is the Managing Director of EganaGoldpfeil Europe (Holdings) GmbH. He is responsible for overseeing the financial reporting functions and the business development of the Group in Europe. He is also an Executive Director of Egana Jewellery. Prior to joining the Group in 1994, he worked in the corporate finance division of West Merchant Bank in Germany and was involved in advising the Group on the acquisition of Egana Deutschland GmbH, a company engaged in the distribution of timepiece and jewellery prior to its corporate organization.

Dr. Norbert BREUER, aged 55, is the Chief Executive Officer of Salamander GmbH. He is responsible for marketing, sales, PR, IT, law and lease management. He has been with Salamander since June 2004.

Mr. Juergen HOLZSCHUH, aged 40, is the Finance Director of EganaGoldpfeil Europe (Holdings) GmbH. He is responsible for overseeing the finance and management of the Group's subsidiaries in Europe. He is also the Managing Director of Salamander GmbH.

Mr. Heinz W. PFEIFER, aged 58, is the Chief Delegate of the Board of Directors. He is responsible for the strategic development of luxury watch business of the Group. He is well versed with the watch industry.

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

REPORT OF THE DIRECTORS

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

As at 31st May, 2006, the interests and short positions of the Directors and Chief Executive in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register maintained by the Company under section 352 of the SFO or as notified to the Company were as follows:

The Company

	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total Interests	Total Interests as % of the issued share capital	Underlying shares (share options)	Total Interests (including underlying shares) as % of the issued share capital
Number of shares of HK\$1.00 each in the Company								
Hans-Joerg SEEBERGER	—	—	—	478,620,553 <i>(Note i)</i>	478,620,553	37.22%	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%
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 ("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.
- 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 Scheme.
- iv. The options, exercisable at HK\$3.45 per share, were granted pursuant to the Scheme.

REPORT OF THE DIRECTORS

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

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 <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:

- i. 1,044,955 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 SEEBERGER and his family. 246,121,144 shares were registered in the name of the Company and Glorious Concept Limited, an indirect wholly owned subsidiary of the Company. By virtue of his interest in the Company through PIL and the Captive Insurance Trust, Mr. Seeberger was deemed to be interested in these shares.
- ii. These shares were beneficially owned by Joshua Limited, a company which was wholly and beneficially owned by Mr. Peter Ka Yue LEE.
- iii. The options, exercisable at HK\$2.24 per share, were granted pursuant to the Egana Jewellery Scheme. Such options were cancelled at no consideration on 6th July, 2006 in light of a scheme of arrangement put forward to the independent shareholders of Egana Jewellery by the Company on 6th July, 2006.
- iv. 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 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 <i>(Note i)</i>	194,404,303	20.40%	—	20.40%
Peter Ka Yue LEE	—	—	—	—	—	—	2,715,000 <i>(Note ii)</i>	0.28%

Notes:

- i The shares were held by wholly-owned subsidiaries of the Company. By virtue of his interest in the Company through PIL and the Captive Insurance Trust (a discretionary trust whose prospective beneficiaries included Mr. Hans-Joerg SEEBERGER and his family), Mr. Seeberger was deemed to be interested in these shares.
- ii The options, exercisable at HK\$0.467 per share, were granted pursuant to Tonic's share option scheme.

Certain Directors held certain nominee shares in subsidiaries in trust for the Company or its subsidiaries as at 31st May, 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 and underlying shares of the Company or its associated corporations within the meaning of Part XV of the SFO which were required to be notified to the Stock Exchange and the Company pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed 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\$1.00 each in the Company			
Sansar Capital Master Fund, LP (<i>note i</i>)	65,868,000	65,868,000	5.12%
Sansar Capital Management, LLC (<i>note ii</i>)	78,240,000	78,240,000	6.08%

Notes:

- i. These shares were beneficially held by Sansar Capital Master Fund, LP.
- ii. These shares were held by Sansar Capital Management, LLC in the capacity as investment manager.
- iii. 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, sales to the Group's five largest customers in aggregate accounted for less than 30% of the total sales for the year.

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

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.

EMPLOYEES

As at 31st May, 2006, the Group employed approximately 7,600 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.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS

Details of the continuing connected transactions for the year are set out in Note 38b to the accounts. The Independent Non-Executive Directors have reviewed the continuing connected transactions set out in Note 38b and confirmed that the 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 agreement 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 value of the continuing connected transactions during the year ended 31st May, 2006 did not exceed the annual cap amount of HK\$38,000,000 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 the above 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 policy as stated in the relevant agreement; and
 - (iii) entered into in accordance with the relevant agreement governing them.
2. The aggregate value of the continuing connected transactions during the year ended 31st May, 2006 did not exceed the annual cap disclosed in the Company's announcement dated 25th February, 2005.

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

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

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

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

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

REPORT OF THE DIRECTORS

COMPLIANCE WITH THE CONTINUING DISCLOSURE REQUIREMENT UNDER RULE 13.21 OF THE LISTING RULES *(continued)*

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. 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.

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 is 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 EVENTS

Details of significant subsequent events are set out in Note 39 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
EganaGoldpfeil (Holdings) Limited
Hans-Joerg SEEBERGER
Chairman and Chief Executive

Hong Kong, 21st September, 2006