



Persistent revenue growth driven by an impressive stable of brands that are strategically positioned in the fastest growing fashion accessory industry

Successful joint venture with strategic partners in Asia to launch the Junghans Radio Controlled and Junghans Systems (transponder) watch programs set trends for rejuvenation of the global timepiece market

Dear Shareholders:

On behalf of the Board of Directors ("the Board"), I take the pleasure to present the Company's Annual Report for the year ended 31st May, 2003.

This year is a memorable year to us as it is our 10th anniversary since our listing on The Stock Exchange of Hong Kong Limited in June 1993, and as our 25th anniversary since we started our business as a trader in 1978 in Hong Kong. It certainly signifies a milestone to the Group.

We are pleased that the Group continues to record revenue growth (15% over the annualized 31st May, 2002 amount) to reach HK\$ 2,578 million in the midst of the global economic downturn during the year ended 31st May, 2003.

This is, inter alia, attributable to our defined corporate strategy involving related diversification of our brand portfolio in the core timepiece, jewellery and leather segments, the fastest growing sectors in the fashion accessory industry.

During the year, the revenue split among timepiece, jewellery and leather & lifestyle divisions are 51%, 28% and 21% respectively.

Timepiece

The worldwide timepiece industry remained stagnant in the past 3 years. We have been taking positive steps to increase our market share in the industry, through research and development of innovative and advanced technology for application to timepiece.

Radio controlled technology, for which our wholly owned subsidiary Junghans Uhren GmbH of Germany is a pioneer in applying it to timepiece, is now recognized by the industry as the latest know-how anticipated to have global receptions moving forward. The excitement of the recent radio controlled breakthrough is drawing demanding quest for the technology than that of the conventional quartz introduced in the 70's.

In the Hong Kong Watch & Clock Fair 2003, the "Radio Controlled Revolution" by EganaGoldpfeil Group has been the focus, with positive recognition of the Master Joint Development Agreement entered into between Seiko Epson Corporation of Japan and Junghans Uhren GmbH of Germany for the joint development of more advanced and elaborate version of radio-controlled watches and parts thereof for global application and marketing. It is believed that this collaboration will contribute to bringing the world in harmony in terms of higher precision, self-adjusting across the zones and calendar and seasonal time differences.

Cooperation with Seiko Epson reaffirmed our vision to revamp the worldwide watch market with the radio-controlled technology

Junghans Systems, another innovation of the Group, is an advanced technology to combine the transponder (contactless chip) know-how with the wristwatch for extensive applications, including e-transport, e-leisure, e-identification, e-security, e-payment and e-access. Contactless applications are becoming a trend in Asia.

In Hong Kong, we are the pioneer in introducing Junghans Systems Octopus Watch which has been widely used for access to public transport, fast-food chain stores, convenience store network, supermarkets, recreational facilities, office and residence using the contactless system. This sets a showcase for Asia.

Our pre-launch of Junghans Systems YCT watch in Guangzhou with the public transport service provider in Guangzhou in June 2003 is believed to pace an overwhelming success for other major cities in China. Service providers in other cities and provinces in China are pursuing collaboration with Junghans Systems.

Agreements have been reached for introducing Junghans Systems (transponder) watch program in Taiwan and Singapore. We are also actively exploring opportunities for applying Junghans Systems (transponder) watch program in South Korea and Malaysia.

In the luxury watch segment, Goldpfeil Genève of Switzerland has capitalized on the market awareness and expertise of the 7 limited edition men's and the 7 limited edition ladies Goldpfeil Genève watch collection, to extend the know-how in developing two innovative mechanical movements "Tonneau" and "New Calibre". They are expected to be well

Goldpfeil Genève to tap the attractive market of mechanical movements for luxury Swiss watches



Junghans and Goldpfeil Genève give impetus to future growth

received by luxury watch manufacturers, who have a strong demand for innovative movements.

The above projects with enduring benefits are anticipated to fuel the growth of our timepiece revenue which was HK\$1,304 million for the year 2002/03, an increase of 9% over the annualized 31st May, 2002's amount (HK\$1,194 million).

Jewellery

Vertically integrated setups enable more product innovations and faster customer response

For the year ended 31st May 2003, revenue grew by 19% reaching HK\$718 million. One of the competitive strengths of EganaGoldpfeil Group is the vertically integrated manufacturing approach which allows for a faster response for order fulfillment, a more secured research and product development program and a cost efficient production and procurement process.

To cope with the continuous orders growth, we have established, on top of our existing four jewellery production facilities (in Germany, China, Hong Kong and Thailand)

two manufacturing plants (one in China, and one in Germany). Within one year of commencing operation since August 2002, the new China production plant (which is situated next to our Speidel factory which had been successfully transplanted from Germany to China and is one of the most advanced jewellery factories in China) reached 75% of its production capacity.

Enhancement in productivity, product development and customer label orders with the addition of two new factories in Germany and China

As a pioneer in the production know-how and technology which are crucial to sustain "innovativeness", we have acquired Guthmann & Wittenauer (G & W), an established German jewellery production plant in Pforzheim (a prominent German jewellery centre) in April 2003, and are in the process of integrating our existing facilities under Abel & Zimmermann into G & W for enlargement of the production coverage and expertise. The G & W acquisition not only provides more extensive and/or innovative branded jewellery collections, but also solicits an enlarged customer label clientele for the Group. Apart from an increase in customer label products orders, the acquisition has made positive contribution in terms of streamlining the Group's branded product procurement and administrative efficiency.

In line with EganaGoldpfeil Group's 5-year plan of enlarging the revenue split from Asia to 28%, we have increased our focus on distribution and marketing in Asia.

Asia revenue contribution to expand to 28% in 5-year time

In the third quarter of 2003, we have entered into a licensing and business co-operation arrangement with a renowned jewellery group in Shanghai for the launch of Pierre Cardin jewel as fashionable and contemporary collections (which are believed to be the best received categories in China) nationwide. This marks our extension to the China market following China's accession to the World Trade Organization.

Licensing of Pierre Cardin jewel in China to go ahead

In the US, we are practicing a focus differentiation approach targetting the prestigious and upscale market.

Pursue focus differentiation in the US

Leather & Lifestyle

In September 2002, Comtesse Group together with its Comtesse trademark signifying the world's most renowned noble leather products, was integrated into Goldpfeil Group for sharing the mutual expertise and synergies.

Synergy resulted from smooth fusion of Comtesse and Goldpfeil

In April 2003, Goldpfeil and Comtesse jointly opened a flagship boutique store in Tokyo's Ginza, Japan, following our 24 months concerted marketing effort in enhancing

Multi-brand presentation of JOOP!, Goldpfeil and Comtesse - a pioneer marketing approach

the brand awareness of Goldpfeil which is now ranked within the top 15 brands (from 47th) in Japan. Goldpfeil is recognized as one of the growing luxury leather brands.

In June 2003, the Group acquired one-third interest in JOOP! GmbH of Germany which possesses JOOP!, a renowned fashion brand in Europe with strong business potential in Asia. This effectively enables the Group to secure the worldwide licenses for leather, accessories, shoes, timepiece and jewellery on an exclusive and perpetual basis. With Goldpfeil, Comtesse and JOOP!, we are well poised to pursue a "multi-brand" presentation in our Goldpfeil shops and networks for the satisfaction of our discerning customers - a unique approach in the luxury and prestigious consumer product segment.

Extension of Goldpfeil as a truly lifestyle collections with launching of optics, ladies and men's wears

Goldpfeil's commitment of extending from a renowned leather trademark to a prestigious lifestyle brand is making positive contribution. Goldpfeil Genève watch collections have received international awards, in recognition of their high stance in the watch market. Goldpfeil Optics is also positively received in Germany with vast potential extending to Asia.

With the well reception of Goldpfeil ladies wear by the professional executives in Europe, Japan and Far East, we are introducing Goldpfeil men's wear to enlarge the collection in Greater China which are having high demand for excellent quality men's wear under internationally renowned brand.

"Stefanie Graf" by Goldpfeil, a successful showcase of co-branding approach

The co-branding approach under "Stefanie Graf" by Goldpfeil to extend its collection to wider audience without losing sight of the core "timeless fashion" theme is an encouraging development not only in Europe, but also in Asia.

During the year under review, the leather and lifestyle division recorded a 26% growth in revenue amounting to HK\$555 million.

European Headquarters and European Technology and Logistics Center

Establishment of ETLC and EHQ aimed to enhance CRM and SCM efficiencies by shortening lead times and fulfilling orders requirements

Construction to consolidate five German operations under an European headquarters in Offenbach has started and is scheduled to be completed by end of December 2003. It is anticipated that operational efficiency will be enhanced with the gradual settling-in of the operations.

The state-of-the-art European Technology and Logistics Centre (ETLC) established near Frankfurt, Germany aims at enhancing the customer relationship management (CRM) and supply chain management (SCM) functions of the Group, for the benefit of our customers and supplier partners. ETLC has commenced operations since June 2003, and is expected to enhance the Group's operating efficiency and increase recurring revenue from existing and potential customers due to better CRM activities. Practicing a vertically integrated manufacturing approach with advanced production facilities in Germany, Hong Kong, China and Thailand, SCM is the key to improve our lead time and response to the changing economy and market needs.

The Group continues to commit to sustain its leading stance in the fashion accessory industry, which will translate into further enhancement of our brand value and profitability for the benefit of our partners and shareholders.

Strive to maintain leading position as a multi-brand marketer

As at 31st May, 2003, the Group had a total workforce of approximately 4,700, of which approximately 3,500 were labour workers located in our 12 production facilities located in Germany, Switzerland, Italy, Thailand, India, PRC and Hong Kong. The remaining 1,200 employees were sales and marketing, product development and administration staff, with 150 and 750 servicing at the Hong Kong Headquarters and European Headquarters in Germany respectively. Our staff at the two Headquarters and the various operating subsidiaries situated in Germany, Austria, Switzerland, Italy, France, the United Kingdom, India, Thailand, China, Japan and the USA have, together with our worldwide appointed agents and distributors, contributed in establishing and servicing our customers covering 96 countries and territories.

Group worldwide workforce reached 4,700

On behalf of the Board, I would like to express our heartfelt thanks for the commitment and contribution of our employees to the Group. With their dedication and our pragmatic business model, the Group remains confident of its leading market position and of realizing our achievable visions for a prosperous future.



Hans-Joerg Seeberger
Chairman and Chief Executive

Hong Kong 29th September, 2003