

Chairman's Statement



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, 2004.

We are pleased that the Group recorded a historical high in revenue, exceeding HK\$977.6 million, an encouraging increment of 36% over the prior year's.

Thanks to our unique Brand Pyramid strategy (which involves the implementation of various brands in different market segments) our Group remains to be a trend setter in the global jewellery market which is highly fragmented and competitive with a market size of over US\$20 billion.

This strategy helps the Group cover the fashion to the luxurious markets (which are most demanded and enjoying relatively faster growth), and diversifies business risks.

Currently the Group has a well-balanced portfolio of 21 brands with 16 self-own and 5 under exclusive license with global catch.

70% of the Group's revenue came from the Group's 10 key focus brands. To name a few, JOOP!, Carrera, Dugena, Kazto take lead in the affordable luxury and modern classics; whereas Pierre Cardin, Yamato Pearls, Esprit and MEXX as fashion statements. We are positioning to launch Goldpfeil jewel in the luxurious sector for our exquisite consumers in 2005.

We shall continue to practice this "multi-brand" approach to help capture the rising demands for branded jewellery, explore new market potential and raise brand awareness.

Europe Enjoying Continuous Growth & Wider Operating Margin

Europe saw 12% increase in revenue exceeding HK\$627.7 million, which represents 64% of Group's total.

The European Technology and Logistic Center (ETLC) in Germany started operation in June 2003. Starting December 2003, we gradually moved to the European Headquarters (EHQ) at Frankfurt - Offenbach, Germany with a full settling-in by April 2004. The combined effect of ETLC and EHQ enhances the Group's logistics (SCM) efficiency and customer relation management (CRM) effectiveness. As a result, we are able to shorten order fulfillment time, increase inventory turnover rate and

enrich cost effectiveness, resulting in higher revenue and wider operating profit margins (by 1% which is expected to be recurring in the current 5-year plan).

The EganaGoldpfeil Spring Fair (in January) and Summer Fair (in June) hosted at the Exhibition Hall (the largest of this nature in Germany) in the EHQ demonstrated promising results with positive remarks from participants, as more collections were presented, faster delivery were facilitated, and, more importantly, better services to customers were made possible (due to the exhibition hall being attached to the office of EHQ enabling responsive services at spot).

In June 2003, we acquired a distribution network in Germany which is complement to the established distribution coverage in Europe. During the year, the Group (in conjunction with the parent, EganaGoldpfeil) acquired 1/3 interests in JOOP! GmbH which effectively enabled us to secure the JOOP! Jewellery worldwide license on an exclusive and perpetual basis. This has strong business potential not only in Europe, but also in Asia which are in need for affordable luxury branded jewellery. Continuous double-digit growth in Europe, our main market is expected.

**Asia Doubling Revenue Split from 14% to 29%
Surpassing our Target**

Asia has shown positive signs of recovery from SARS and after effects of Iraq-war, during the year.

Statistics indicated that jewellery is likely to be the third major product (after housing and cars) that Chinese consumers will seek, with total consumption in excess of RMB100 billion in 2003, targeting for RMB150 billion by 2010. We expect China is the biggest potential market for jewellery in the world.

The Closer Economic Partnership Arrangement (CEPA) between Hong Kong and Mainland enables Hong Kong jewellery operations to enjoy a zero (PRC) import-tariff (which would otherwise be at 35%) for import of jewellery to China.

The Group manages to establish distribution relationship with certain importers to China, through whom we open the jewellery market there.

We have been sourcing bought-in-finished goods (B-I-G) on normal merchandise from local partners which had better local culture comprehension to penetrate into China market through the importers. The B-I-G strategy demonstrated success in opening up our market in Europe which is now developed into our core market supported by our in-house produced branded products. It shows that this strategy is with lesser risk and higher chance of success in opening up new market. Moreover, this approach helps secure our credit exposure and enrich our corporate profile, in addition to revenue contribution.

As regards our branded products which are in-house produced, we pursue strategic alliance/partnership with local partners having strong distributing and retailing capabilities. In the joint venture, we contribute our strength in brand building, marketing, promotion and product development, in addition to the supply of the products.

During the year, we entered into business cooperation agreement with a China partner directly - a well established fashion group to launch Pierre Cardin as fashionable and contemporary jewellery nationwide in the Mainland.

Collaboration with a PRC based retail network and distributors is actively undertaken by our Asian team, which has among others, enabled Esprit Jewel gaining market share in China.

With the "Individual Visit" scheme under CEPA (under which Chinese visitors are able to travel to Hong Kong on their own, which was not permitted previously), it revealed 5.66 million of visitors to Hong Kong consuming HK\$12 billion during the 6 months ended 30th June, 2004. 32 cities are now eligible for the "Individual Visit" scheme which has a potential of 150 million visitors. To ride this wave (which also has the cross synergy of introducing our brand profile to Mainland upon the visitors returning to China, thereby enhancing the market potential for our branded jewellery there), we have come to terms to franchise our Dugena chain shop concept in Hong Kong with a view to extending it to China (with Southern China as the first footprint).

Japan, Taiwan and Singapore show growth in jewellery industry, for which we have poised to capture an increase in order.

The above had expedited our growth plan in Asia, having reached a 29% revenue share in FY 03/04, the first year of penetration surpassing our initial target to reach 28% revenue split in the 4th year in our 5-year Program.

During the year, Asia contributed HK\$285.1 million revenue (HK\$99.7 million in FY 02/03); which adds confidence to the appropriateness of our business strategies for the region.

In February 2004, Merrill Lynch, an international investment bank subscribed US\$10 million 5-year convertible bonds of the Group, the proceeds of which were applied as working capital for the Asian business to cope with its growth momentum. Starting from November 2004 the Group and Merrill Lynch each have an option for the Group to issue further convertible bonds with maturity in February 2009 to the extent of US\$30 million the proceeds from which are intended for the expansion of business of Asia and the US.

US Revenue Growing By 16%

Revenue of US amounted to HK\$64.8 million (HK\$55.8 million in FY 02/03), primarily derived from the high-end markets pursuant to our focus differentiation strategy. Possibilities of strategic alliance and co-branding with US based chain stores and outlets are actively pursued with a view to increasing the US revenue share from the current 7% to 20% as our 5-year plan.

Our Thai production facilities, Keimothai, and diamond supply associate in Israel are well equipped to service the US market and remain as solid supporters of high-end production for the respective marketplaces.

Vertically Integrated Operations - A Distinguished Feature in our Industry

Being a truly vertically integrated operations, from product design and development, manufacturing, marketing to distribution, we established 5 production plants - 3 in Asia for normal seasonal collections and 2 in Europe for high-end products - this structure is to set for the global trend.

In addition, we set in 8 strategic jurisdictions (Germany, Austria, The Netherlands, Switzerland, Hong Kong, China, Japan and US) our own operating subsidiaries for brand building, marketing and distribution functions, which together with our appointed distributors and agents established a network of 5,000 points-of-sales in 48 countries.

We will continue to pursue the "vertical integration" model which enables us to have a timely response to the fast-changing consumer behavior; more effective control over product quality and cost; and better response to customer needs, thereby maintaining a more stable profit margin.

Leading Jewellery Stance Enjoying Double Digit Growth in After Tax Earnings and Shareholder Funds

Distributable earnings reached HK\$68.5 million, an 18% upsurge. Our shareholder funds continuously reflect double digit growth (12%) to reach HK\$511.6 million, 5 times of that at IPO in 1998.

During the year, our shares have been admitted to trading on Berlin Stock Exchange, Germany, in addition to our primary listing on the Hong Kong Stock Exchange. This is believed to widen our shareholder base and enable an international attraction to the Company.

To sustain our leading position, we will optimize our resources as far as practicable for long term growth, to capitalize on our brand building strength, extensive network coverage, quality product services competence, and innovativeness (in product and communications).

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; our core value belief ("Caring, Integrity and Fairness") governing our Corporate Governance philosophy; and the proven business model, the Group remains confident of realizing our achievable visions for a promising future.



Hans-Joerg Seeberger

Chairman and Chief Executive

Hong Kong, 27th September, 2004