

# CHAIRMAN'S STATEMENT



Dear Shareholders,

On behalf of the Board of Directors (the "Board"), I am pleased to present the Company's annual report for 2000.

## RESULTS

The Group's turnover for the year ended 31st December, 2000 was HK\$2,454 million (US\$315 million). Operating profit before taxation was HK\$142 million (US\$18.2 million), with distributable earnings of HK\$110 million (US\$14.1 million).

## DIVIDENDS

With a view to enabling continuous business growth through defined strategies including appropriate strategic alliance and fusion, thereby enhancing our shareholder value, the Board does not recommend payment of any final dividend for the year ended 31st December, 2000. No interim dividend was paid during the year.

## CLOSURE OF REGISTER OF MEMBERS

To establish shareholder's entitlement for attending the

Company's annual general meeting on 20th June, 2001, the Company's register of members will be closed from 18th June, 2001 to 20th June, 2001 (both days inclusive). No transfers of shares will be recorded during such period.

## OPERATIONS REVIEW

### Overview

2000 was a **year of challenge**. **Turnover** was HK\$2,454 million (US\$315 million), 3% less than 1999. The obvious slide of the Euro currency against the US dollar to the extent of 20% over the year adversely impacted our results for 2000, as nearly 70% of our Group turnover was derived from Europe. In **real terms**, excluding the impact of the devalued Euro, our turnover effectively **increased** by about **8%**. We attribute this to our position as a **recognized brandname collector** and **multi-brand vertically integrated powerhouse**. Our status as a trendsetter in the fashion accessory industry has been proven by our trade awards "**Jewel of the Year**" and "**Timepiece of the Year**" for our watches and jewellery under our Esprit licenses, and several major awards from leather industry fairs in Germany.

Breakdown of **turnover by product type** for 2000 was:

timepieces comprising 46%, jewellery 27%, leather 24%, others 3%. These figures are consistent with those for 1999.

**Geographical breakdown** of turnover for 2000 was Europe at 70% (up slightly from 66% in 1999), Asia Pacific at 23% (1999: 29%), and America at 7% (1999: 5%). **Profit from operations** was HK\$198 million (US\$25.4 million), representing a profit margin of 8.1% and a return on equity of 15.8%. Turnover from our **brandnamed products** was 72%, compared to 66% in 1999.

**After-tax earnings** attributable to shareholders was HK\$110 million (US\$14.1 million). Excluding the Euro devaluation effect and adjusting the pre-launch and relocation expenditures to prevailing policy, there exists a **modest growth of 5%**.

**Shareholder fund** reached HK\$1,254 million (US\$161 million), an increase of HK\$112 million (US\$14.4 million) over that of last year, reflects a **double digit growth**.

### Timepiece Operations

Timepiece turnover in 2000 was HK\$1,122 million (US\$144 million), contributing 46% of Group turnover. The **actual increase** in our timepiece turnover was about **10%**, but

was offset by the devaluation of the Euro by approximately the same percentage.

In November 2000, we acquired **Junghans Uhren GmbH** ("Junghans"). Junghans' 2000 turnover was HK\$550 million (US\$71 million), and two months are therefore included in our Group turnover. In 2001, the full integration of Junghans into our Europe timepiece operations will be completed. We expect that our Group turnover from our timepiece division should increase in **2001 to HK\$1,700 million** (US\$218 million) with inclusion of Junghans' results for the full year. Junghans is a well-established timepiece manufacturer and distributor with high awareness in Europe, and prominent for its **technological innovations** in the field of movements including radio-control, solar, and transponder technology. The **Junghans Systems "SmartCard"** combines contactless smart card technology with a wristwatch that opens doors, contains tickets, is an ID card, and pays for bus or rail fare, and other limitless potential for entertainment and leisure activities.

In 2000, we undertook extensive marketing studies and research to establish the best concept for timepieces under our owned luxury sports brand, *Carrera*, and for our brand, *Goldpfeil*. The first collection of *Carrera "Time*

**Engineering"** using innovative materials like titanium and carbon was presented at the 2001 Inhorgenta Fair held in Munich, Germany and for an international launch at the Basel Fair held in Basel, Switzerland with strong response. It will be followed by a coordinated introduction at the JCK Show in Las Vegas, US, in June 2001. We are optimistic that the combined strengths of *Junghans* and *Carrera* will add strong synergies to our timepiece division.

In 2000, we have **expensed instead of deferred the pre-launch expenditure** for the new *Goldpfeil* and *Carrera* collections, which increased our expensed costs by approximately HK\$16 million (US\$2.1 million). This accounting treatment is in anticipation of **a change in accounting policy** (to be effective for 2001) to expensing all pre-launch promotion expenditure (an intangible asset), instead of amortization over a 3 year period.

In March 2001, we were appointed the **worldwide exclusive licensee** of MEXX Time and sales distributor of MEXX Jewels in Germany. MEXX, headquartered in the Netherlands, is a mid-priced contemporary lifestyle brand whose products are sold in more than 40 countries. We are confident that with our international operating presence and proven trendsetting experience in the

fashion accessory industry, our cooperation with MEXX will enrich the value of the brand to make it a unique and successful collection of timepieces and jewellery. In April 2001, we have been appointed as **the worldwide licensee** for *Joop* headquartered in Germany, for timepieces, jewellery and some leather accessories, which make up the three core activities of our Group.

## Jewellery Operations

**Turnover** from our **jewellery** division, separately listed as Egana Jewellery & Pearls Limited, was HK\$671 million (US\$86 million), 3% less than 1999. In **real terms**, excluding the devaluation in the Euro during the year, jewellery turnover **increased by approximately 9%**.

The **devaluation of the Euro eroded** the operating profit of our jewellery division by some HK\$25 million (US\$3.2 million) due to our policy of adhering as far as practicable to the prices established (in the form of Euro, US\$, Japanese Yen and Hong Kong dollars) at the inception of each production collection launch, during the season. This policy is viewed as fair and demonstrates our long-term commitment to our distribution network and partners. This has proven to be of favourable and long-term benefit

to **foster closer relationship** with strategic partners and associates, and that they are prepared to participate with the Group to minimize any currency effect in product prices.

During the year, we undertook marketing and feasibility studies of the US jewellery market to assess the potential launch of *Carrera* and *Goldpfeil* jewellery in the forthcoming year. This is part of our ongoing efforts to **capitalize upon our dominant presence in Europe** as a trendsetter in designing, manufacturing and distributing innovative and high quality jewellery. The Group's own jewellery brands include *duNouveau*, *Goldpfeil*, *Jacquelin*, *Kazto*, *Pierre Cardin*, *Speidel* and *Yamato (Perlen)*.

## Leather/Lifestyle Operations

Our **leather** division **turnover** for 2000 was HK\$579 million (US\$74 million), down 10% from 1999, due to foreign currency translation impact for accounting purposes. With 90% of leather turnover derived from Europe, this has a significant effect. In real terms, turnover has enjoyed a **modest growth** of about **5%**. Our owned trademark, **Goldpfeil**, is number one in the German luxury brand segment in terms of readiness to buy, market share and

brand awareness. We continue with our commitment to develop this brand with its almost 150 year history in the leather industry into a **lifestyle brand**. The first *Goldpfeil* optical collection was introduced in 2000 at German fairs with strong response. *Goldpfeil* jewellery collections will be launched in the 4th quarter of 2001, and will capture world attention from discerning consumers in both Europe and the USA.

To perfect the concept for the **first ever Goldpfeil watches**, the Company did a design coup by giving seven top craftsmen, who are members of the famous Académie Horlogère des Créateurs Indépendants, "**carte blanche**" to create seven one-of-a kind exceptional watches. These one-of-a kind unique creations have been presented with overwhelming response at the 2001 Basel World Watch and Jewellery Fair just held in March. These watches will then embark on a **year-long world tour** to be on display at some of the finest jewelers in major cities, and will be placed on **auction by Christie's in 2002** during the Basel Fair. These watches will be offered in **limited edition** only.

We have taken steps to expand the presence of *Goldpfeil* in the **Asia Pacific region**. *Goldpfeil* Japan, after 15

months of operation, is already contributing profit to the leather division and has **doubled Goldpfeil brand recognition in Japan**. Our strategy for expansion in Japan is appropriate particularly in light of the revelation that Japanese consumers make up one-third of the world's luxury goods purchases. Further, in November 2000, we opened our first *Goldpfeil* shop at The Marco Polo Hongkong Hotel, which features leather, opticals, accessories and in the near future, apparels and shoes. All of these collections will capture the *Goldpfeil* theme of "**Classiness, Elegance, Gentility**" for international appeal.

## PROSPECTS

### Europe

Europe will continue to be our **key market**, as we foresee good economic development within the European Union. We will strive for continued expansion of our network and successful introduction of new and innovative products and collections.

### USA

Studies on the USA jewellery market indicate that it is highly competitive and diverse with no one player having more than a 5% market share. Analysts believe the USA

jewellery industry is ripe for consolidation and emergence of several key players, achieved by acquisitions and mergers. On the other hand, the USA watch industry has remained fairly stable over the past few years, with the market most active at the lower and higher ends of the spectrum.

We are capitalizing upon our European experience to strategically position ourselves for expansion into the USA. We have in our possession a number of brands that should have good recognition and potential for building our presence in the USA, including *Kazto (an avant-garde jewelry)*, *duNouveau (upscale jewelry)*, *Carrera (sports timepieces and jewellery)*, *Junghans (high tech timepieces)*, *Goldpfeil (prestigious)*, as well as timepiece license for *Field & Stream® and Outdoor Adventures®*. We believe that the prevailing economic conditions in the USA give us a good opportunity to look **for potential acquisition of established networks with brandnames** having good recognition amongst consumers in the USA.

As part of our plan to strategically position ourselves in the USA jewellery and timepiece markets, we have **relocated our USA distribution centre** from New Jersey to Florida. The HK\$10 million (US\$1.3 million) cost to

relocate our premises has been expensed, which would otherwise be capitalized, in anticipation of the change in accounting policy for expensing such expenditure (effective for 2001). Our US operations demonstrated **positive development** with an increase in turnover of HK\$24 million (US\$3.1 million) reaching HK\$161 million (US\$20.6 million), representing 7% of turnover (as compared to 5% in 1999) during the year. We believe that we have set a good platform to eventually realize our **goal of having 25% of our enlarged turnover derived from the USA** within a time frame of 3 to 5 years. Our new **distribution system** utilizing our established Internet and Extranet capabilities to connect our manufacturing facilities in Asia, as well as our **Logistics & Manufacturing System** should enable us to **become a strong player** in the USA market.

### **Egana Information Technology**

In November 1999, we established Egana.Com Inc. to act as a focal point to foster our experience in information technology (IT) to a **global platform** and to further develop our e-business. We have further built on this initiative by recently establishing Egana Information Technology Limited to develop and promote the

incorporation of IT infrastructure and business applications to specialized industries in the Asia Pacific region, including manufacturers of timepieces, jewellery, toys, leather, electronics and printed circuit boards. With experienced IT professionals, we believe that Egana Information Technology Limited will **enhance the production efficiency** of the Group, our peers, stakeholders, and strategic partners.

**Credit Suisse First Boston (HK) Limited** subscribed a 3 year US\$15 million of convertible debentures in December 1999 for supporting the Egana.Com vision. The sums have been applied according to plan, for the positive future prospects of our Group. Within 15 months, approximately **70%** of the debentures has been **converted** which demonstrates the **ongoing support** of our business, and has had a **positive effect** on our **gearing ratio**.

Aside from the impact of the devalued Euro on our 2000 results, we remain in **a strong financial position**. With the operating cash inflow and the subscription of 2000 warrants to the extent of 80% during the year, we have accumulated **HK\$470 million (US\$60.3 million) cash** as at 31st December, 2000 (1999: HK\$240 million), even after having acquired Junghans in November 2000. Our 2000

**gearing ratio has improved** to 59% compared to 69% in 1999, which continues to remain well ahead of the industry average of 110%. Our **solvency ratio** (net debts/tangible net worth) for 2000 was 31%, a significant improvement over 63% in 1999, and again well ahead of the industry average of 80%.

Our **debtor turnover** improved to 60 days from 72 days in 1999, yet again ahead of the industry average which stands at 120 days.

We will continue to **strive for future growth and expansion**, including growth by acquisition and seeking good strategic partners for participation, and to capitalize on the potential of our extensive brandname portfolio which now consists of 42 well-known names.

## GOING FORWARD

We will continue to pursue our vision of being **a respected, leading multi-brand powerhouse** in the fashion accessory industry for the betterment of the lifestyle of the community. To achieve this, our **mission** is to ensure timely provision of **quality** products and services, an effective extension of **value adding activities**, and being **a good**

**corporate citizen** for the benefit of our stakeholders in a **socially responsible** manner.

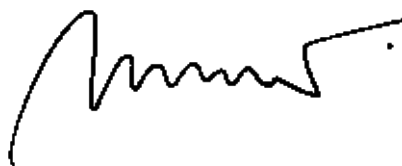
The management has demonstrated that the 3 fundamental corporate strategies of the Group, being (a) the "**Think Globally, Act Locally**" - Globalization approach, (b) the "**Related Diversification**" plan, and (c) the "**Expansion through Organic Growth and Strategic Alliance**" in reinforcing the internal development have proven to be the positive forces in striving for continuous business expansion.

I am pleased that in 2000, a year that has seen an unexpected steep devaluation of the Euro, the rally of the Stock Market and the bursting of the dot com bubble which collectively affected global consumption and adverse economic recovery, EganaGoldpfeil still managed to weather the storm, bearing our commitment to **total quality management** with **innovative and balanced mix of strategies**. We thereby recorded **distributable earnings** of HK\$110 million (US\$14.1 million) and **shareholder fund** of HK\$1,254 million (US\$161 million), representing an increase of HK\$112 million (US\$14.4 million) and a double digit growth over 1999.

Having successfully been admitted as a Hang Seng Top 100 Index Constituent Stock, with shares also being listed on Frankfurt Stock Exchange as well as on the US Nasdaq in the form of ADR, we are **positioning ourselves for becoming a Hang Seng Constituent Stock**, along with our vision of enjoying **double digit income growth** with direct translation into **increased shareholder value**.

## ACKNOWLEDGEMENTS

On behalf of the Board, I would like to express our heartfelt thanks for the industrious efforts and contribution of our employees and deep appreciation for their dedication to the Group. With the ongoing support of our shareholders, customers, employees and other business associates, we are confident of a future bright with sound prospects for our Group.



Hans-Joerg SEEBERGER

Chairman and Chief Executive

Hong Kong, 26th April, 2001