

# Chairman Statement



Dear Shareholders:

I take the pleasure to present our first set of financial results following our change of accounting year end from 31st December to 31st May effective 2002.

"Change of year end enables operating efficiency enhancement and maximizes transparency and corporate governance compliance."

"The world faced economic downturn; we take this opportunity to consolidate our fundamentals, thereby enabling us to ride future economic growth upon recovery."

The change, which conforms with that of our holding company, EganaGoldpfeil (Holdings) Limited ("EganaGoldpfeil"), a multi-brand fashion accessory powerhouse listed on The Stock Exchange of Hong Kong Limited, is with a view to enhancing operating efficiency and to providing a more evenly distributed financial performance reporting in our interim and annual results announcements, thereby promoting further transparency and better corporate governance for the benefit of the Company and our stakeholders.

Since the "September 11" event, the world economy has been subject to certain downturn within various jurisdictions even being at the edge of recession. This has led to sharp decline in revenue and profitability for many businesses, including jewellery operations which has on average reflected an income shrinkage of over 30%.

Our 17-month results to 31st May, 2002 showed sales revenue of HK\$856 million (2000: HK\$671 million); profit from operations of HK\$68 million (2000: HK\$64 million); distributable earnings of HK\$42 million (2000: HK\$43 million); and shareholder funds of HK\$406 million (2000: HK\$337 million).

"Established brandname portfolio sets the platform to grow our business."

Our annualized sales revenue in 2001/02 represents a modest drop of less than 10% as compared to 2000's, which translates into an above average performance. Since our listing in July 1998 up to 2000, we have been focusing on building up our portfolio of established brandnames for jewellery, including Esprit, Goldpfeil, Kazto, Jacquelin, Pierre Cardin, and Yamato Perlen, which sets a platform to further grow our core business.

2001/02 was essentially a time to focus on product and business development to prepare for the challenges ahead of us due to the worsening economic environment prevailing throughout the period. In retrospect, this development strategy proved to be appropriate and we did not get caught up in the craze of acquiring potential businesses/ brandnames at inflated valuations.

"JOOP!, MEXX and Abel & Zimmermann are latest additions to the brand portfolio."

In the period under review, we have added onto our brand portfolio the exclusive licence for JOOP! jewel, the ownership of Abel & Zimmermann, a renowned prestigious fine jewellery brand, and MEXX distribution right in Germany and Austria.

JOOP! has strong business activities in Germany, respectively Europe and is envisaged to have sound potential in Asia. Abel & Zimmermann, a German brand since 1885, having 60% of its revenue from US and 40% from Europe, is well poised to help the Group expand into the US elite jewellery market through a focus differentiation approach. The brand is complementary to the concept for Kazto and Jacquelin collections. These upscale brand names are being introduced to an enlarged customer portfolio, with synergies being realized.

MEXX is a mid-priced contemporary lifestyle brand and our cooperation with MEXX will bring an additional fashion theme to our brandname portfolio.

"Goldpfeil Jewellery masterpieces are modeled on the "consumer-centered" strategy of Goldpfeil, an extension from the industry wide customer focused approach; well on track to achieving Goldpfeil's vision of being a truly global lifestyle brand."

"JOOP! licence and MEXX appointment are strategic fits in substantiating the trend setting endorsement in the fashion conscious jewellery market."

"Vertically Integrated Business Model provides better leverage in economic downturn and sets a stronger platform to gain momentum upon recovery."

Echoing the warm welcome of Goldpfeil Geneve watch collections, Goldpfeil prestigious jewellery masterpieces will be introduced in 4Q 2002 to accompany the watches to the professional and well bred with their desire to be fully attained. The collection is modeled in line with the "consumer-centered" strategy adopted by Goldpfeil which enables us to provide products and services that exceed our consumers' expectation. Thus, we have been (and will continue) innovating products that our consumers are to have a better experience and greater enjoyment of them. We are well on track to realizing Goldpfeil's vision of being a truly global lifestyle brand through provision of quality and innovative products and services as well as a luxury atmosphere of shopping experience.

In 2001/02, we continued our ongoing efforts to capitalize upon our dominant presence in Europe as a trendsetter in designing, manufacturing and distributing innovative and high quality jewellery. Our status as a trendsetter in the fashion accessory industry has once again been recognized with Esprit Jewel being ranked a top three bestseller in the trendy jewellery segment by German retailers in 2001, the fourth consecutive year we have been granted this honor. During the Inhorgenta Fair (the largest watch and jewellery fair in Germany) and Basel fair (the world's largest watch and jewellery fair) held in February and April 2002, Esprit Jewel has taken a strong lead in the fashion jewellery segment. The encouraging response to MEXX Jewel and JOOP! jewellery in the fairs is a direct endorsement of our role as a trendsetter for fashion conscious consumers in the jewellery segment.

We have established our own product development and/or production facility in Germany (Abel & Zimmermann), Thailand (Keimothai), Hong Kong (Oro Design), the PRC (Speidel) and US (Egana Jewelry), to support the global distribution undertaken by the Group's own operating presence in Germany, Austria, Italy, US, Japan, Hong Kong, Thailand and India in conjunction with its strategic distributors / partners in 40 countries around the globe. This vertically integrated business model allows the Group to capture market changes in a more cost-effective manner. To strengthen the manufacturing support, a joint venture has recently been entered into with an Israel diamond supplier group, for servicing our upscale and luxury jewellery lines for the American market. In the PRC, we have established an additional jewellery plant with the transplantation of the Speidel knowhow,

to address the silver, fashion and costume jewellery for the anticipated Asian market expansion.

"Well positioned to extend proven European experience into Asia and US markets."

Currently, the Company derived 81% of its revenue from Europe with 6% and 13% from Asia and US respectively.

Given the international stance of our brand portfolio (which is expected to be acceptable to the consumers in US and Asia), the proven communications program instituted in Europe (which can be rolled over to US and Asia in a cost-effective manner) and the established production facilities that can cater to the demand in various regions, the Company is well positioned to tap any emerging business opportunity in the PRC due to its admission to WTO and the substantial market size in US market.

We are pleased to see that the communications expenditure and market development outlay incurred in the past 3 years for the US market are now making positive contribution. As evidenced in the first 5 months of 2002, there have already accrued operating profits in the US operations and long term programs have now been secured with certain reputable and established networks in US.

"Medium term objective is to increase contribution from Asia & US to 25% each."

Being the jewellery division of EganaGoldpfeil Group, we will enjoy the benefit of the operating efficiency program that is in the process of being instituted by EganaGoldpfeil in Europe, which increases cost-competitiveness for expansion into Asia and the US. Our objective is to increase the percentage of contribution from Asia and US to 25% each on an enlarged revenue basis in the medium term of 3 to 4 years' time; with a view that the Group's revenue is doubled, moving forward.

"Operating efficiency program of EganaGoldpfeil Group further enhances cost-competitiveness for future expansion."

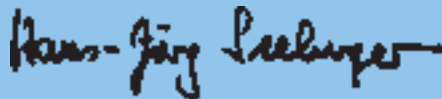
The operating efficiency program in progress involves the formation of a "state-of-the-art" technology and logistics centre to undertake the supply chain management function of the EganaGoldpfeil Group (including the jewellery division), and the centralization of the existing 5 operations in Germany as the European headquarters which is expected to contribute positively in the administration and management support activities. This is in line with the Group's philosophy of continuous improvement.

Operating profit which was HK\$68 million for 2001/02 (2000: HK\$64 million) will be gradually enriched upon reflecting synergies from the captioned operating efficiency program, improved production utilization and the business growth as anticipated.

"Our mission: to be a leading multi-brand jewellery powerhouse and to accrue double-digit growth in shareholder value."

We are committed to our defined mission to be a leading multi-brand jewellery powerhouse and accruing a double-digit growth in shareholder funds. During the period under review, distributable earnings were HK\$42 million, which translates into shareholder value of HK\$406 million as of 31st May, 2002, being 4 times of that at IPO in 1998. We will continue to cultivate opportunities within our operations, thereby allowing our existing internal resources to capitalize on the potential of our international brandname portfolio and to seek strong strategic partners for participation. To enhance our position in the industry, we will utilize our extensive resources to gain long-term business growth and strong competitive advantage through Quality Products and Services, Value Adding Activities and Innovativeness within our core competence.

On behalf of the Board, I would like to express our heartfelt thanks for the efforts and contribution of our employees and deep appreciation for their dedication to the Group. With their ongoing support, we are confident of sound prospects for our Group's future.



Hans-Joerg SEEBERGER  
Chairman and Chief Executive

Hong Kong, 19th September, 2002