

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 change 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.

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

Since the "September 11" event, the world economy has been subject to certain downturn within various jurisdictions even being at the edge of recession. The luxury consumer goods industry has seen an average 20% shrinkage in income, whilst the general consumer goods sector reflected an average of 30% drawback.

Our 17-month results to 31st May, 2002 showed sales revenue of HK\$3,174 million (2000: HK\$2,454 million); profit from operations of HK\$188 million (2000: HK\$179 million); distributable earnings of HK\$52 million (2000: HK\$92 million); and shareholder funds of HK\$1,295 million (2000: HK\$1,229 million).

Our annualized sales revenue in 2001/02 represents a modest drop of less than 9% as compared to 2000's, which translates into an above average performance. This is, inter alia, attributable to our "unique brand pyramid" strategy - over the years, we have established a well balanced brand portfolio ranging from fashion conscious, core contemporary, sports and technology driven products to sincere chic and prestigious sectors, which provides a better leverage in economic downturn, and sets a stronger platform to gain momentum upon recovery.

"JOOP!, MEXX and Abel & Zimmermann extend positive synergies to the Brand Pyramid."

In the period under review, we have added onto our brand portfolio the JOOP! licence covering the timepiece, jewellery and fashion accessory segments in favor of the upscale fashion conscious consumers, and the ownership of Abel & Zimmermann, a renowned prestigious fine jewellery brand. We also secured the MEXX licence for timepiece and distribution right of MEXX jewellery 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. MEXX is a mid-priced contemporary lifestyle brand and the cooperation with MEXX will enrich our Brand Pyramid by bringing an additional fashion theme.

"Investments in own brands and long term licenses showed positive impacts."

We have increased more of our resources in our own brands and long term licenses, which can allow a more direct and effective communication strategy being more responsive to market needs. As a result, our customer

response time has been improved by 20% and the product mix can be adjusted more expeditiously, thereby securing an above industry average sales performance, a stronger brand loyalty and an appreciation in brand values (even) in the midst of global economy drawback.

"Goldpfeil is consumer-centred, an extension from the industry wide customer focused approach, and is realizing its vision of being a truly global lifestyle brand."

The brand value of Goldpfeil 1856 has increased by 150% since our acquisition in 4Q 1998. We remain committed to securing Goldpfeil as a truly global lifestyle brand through provision of quality and innovative products and services as well as a luxury atmosphere of shopping experience. This is made possible due to our extension from customer focused to consumer-centred strategy through, among others, observations of and interaction with our consumers in our Directly-Operated-Stores, Shops-in-Shops, franchisee partners and social events. This enables us to provide products and services that exceed our consumers' expectation. Thus, we have been (and will continue) innovating products to give our consumers better experience and greater enjoyment of them.

Whilst the progress has been slower than our original anticipation due to economic downturn, we are pleased that we have identified the appropriate strategy towards the goal, and are moving forward as planned for realizing the vision — Goldpfeil, a brand that its discreet consumers are proud to be associated with.

"Goldpfeil Geneve watch collection, with its overwhelming reception, endorses the overall brand progression to a lifestyle signature."

We are confident that our core competence and prominent stance in the leather segment will be rolled out into other lifestyle products sectors. This is in fact being endorsed by the watch industry and various renowned collectors towards our 7 "one-of-a-kind" and the 7 "exclusive series" collections of Goldpfeil Geneve watches, which were introduced to the market and the consumers in the past months. The auction of the 7 "one-of-a-kind" Goldpfeil Geneve watches to be held in Geneve in November 2002, is already tipped as a major event of the collectible watch industry. Analysts suggest that Goldpfeil enterprise value has been enhanced by 20% in this regard, reaching HK\$2.5 billion.

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 collaboration with Stefanie Graf in introducing the "Stefanie Graf by Goldpfeil" leather collection in August 2002 has proven to be another success of Goldpfeil's ability of innovating products to meet consumers' satisfaction.

"Spin-off of Goldpfeil to boost its corporate and brand awareness, and to enhance the overall shareholder value, going forward."

During the period under review, the leather division under the umbrella of Goldpfeil AG contributed revenue of HK\$247.7 million, being 8% of the Group's aggregate (2000: HK\$203.5 million). At an appropriate time, Goldpfeil operations will be spun-off for a separate listing on a recognized stock exchange to further boost its corporate and brand awareness as well as to enhance the shareholder value of the Group.

"Junghans Group is strategic fit."

The acquisition of Junghans Uhren GmbH ("Junghans") and its subsidiaries ("Junghans Group") in November 2000 is timely and strategic-fit. This enables the Group to shift its emphasis from bought-in-finished timepieces activities to more in-house branded timepiece production. During 2001/02, Junghans Group contributed revenue of HK\$687.1 million, which substantially compensated the drop in bought-in-finished timepiece sales due to our planned strategy as well as certain economic downturn effect.

The timepiece division (including Junghans Group) brought turnover of HK\$1,692 million (2000: HK\$1,122 million), representing 53% of the Group's total.

"Junghans Systems (transponder) watch and Junghans Radio Controlled (atomic) timepieces are truly

Junghans Systems (transponder) watch and Junghans Radio Controlled (atomic) timepieces are pioneer in the respective fields, and have now set the trends in Europe, with extension into Asia and US.

consumer products with value added functions — a commitment to manifesting the latest ideas and translating them into daily usage for greater enjoyment by consumers."

Junghans Systems (transponder) watch uses the latest transponder technology enabling the wearer to use this watch for unlimited applications on a contactless basis, including opening doors, paying admission tickets, bus or rail fare, as an ID card, and an access pass for entertainment and leisure activities such as theme parks, theaters, concerts. Junghans Systems (transponder) watch will be introduced in 4Q 2002 as an ongoing program in Hong Kong following the overwhelming response to the Millennium series introduced in 2000. A contract has also been signed with a Taiwan service provider that Junghans Systems (transponder) watch will be launched with e-transport and e-payment functions. S. Korea and Singapore both have instituted contactless system in their respective public transport facilities, show interest in Junghans Systems watch program. In China, Shanghai, Guangzhou and Shenzhen public transport facilities service providers are in touch with Junghans for the program application possibility. Entities in the hospitality, theme park, entertainment and leisure, financial institutes have approached Junghans for possible collaboration. It is envisaged that Junghans Systems watch application has vast business potential in Asia and can add at least 20% to Junghans Group's revenue, going forward.

With the Japan transmission station being fully functional since 2000, and the encouraging development of the transmission possibility at Xian, the PRC, Junghans Radio Controlled (atomic per US terminology) timepieces are expected to be the growth driver in the watch industry in Asia. Using the German experience that every 10 watches sold, 1 is represented by radio controlled technology, there avails a potential business volume of over HK\$1 billion for Junghans Radio Controlled timepiece in Asia.

Continuous research and development of latest technology applicable to timepieces are being undertaken by Junghans in Germany to bring value added functions for the better enjoyment of the consumers.

"Egana Jewellery contributes 27% of Group's revenue."

Egana Jewellery & Pearls Limited ("Egana Jewellery"), listed on the Hong Kong Stock Exchange, is 74% owned by EganaGoldpfeil. Being the Group's jewellery division, it enjoys the Group's global network and communications program synergy, and in turn contributes its income and business relationship for the benefit of the Group. In the period under review, Egana Jewellery recorded a turnover of HK\$856 million (2000: HK\$671 million), representing 27% of the Group's total revenue.

"Operating efficiency enhancement program increases cost-competitiveness."

In lieu of instituting massive cost-cutting measures prevailing in the industry, our philosophy is to pursue operating efficiency enhancement program to increase cost-competitiveness. In Germany, we are in the process of finalizing a "state-of-the-art" technology and logistics centre which consolidates the distribution activities for Europe and discharges the supply chain management function.

In addition, centralization of the existing 5 operations in Germany as the European headquarters is expected to contribute positively in the administration and management support functions. A prudent annual 15% cost savings is factored in during the feasibility study of this project.

In 2001/02, profit from operations was HK\$188 million (2000: HK\$179 million). Upon reflecting synergies arising from the technology and logistics centre and the centralized Europe headoffice, operating profits will be gradually enhanced.

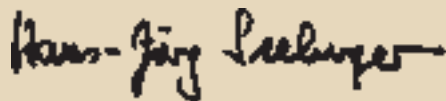
"EganaGoldpfeil philosophy of continuous improvement — more positive effects are to be seen given its vertical integration business model."

This is in line with EganaGoldpfeil's philosophy of continuous improvement. Indeed, in addition to the above operating efficiency enhancement programs, positive actions are being taken to ameliorate the coordination between the production facilities in Asia and the distribution centres in Europe so as to bring forth the respective strengths to the overall advantages of the Group. The effects would be more readily seen having regard to the vertically integrated business model.

"Positive distributable earnings increase shareholder value to HK\$1,295 million, 5 times of that at IPO."

With our own operating presence in 12 jurisdictions, and an established network covering 96 countries in 5 continents, this enables us to take a timely observation of the market developments, the customer and consumer needs and the industry progress, which we are ready to turn into opportunities, innovations and eventually business earnings. During the period under review, distributable earnings were HK\$52 million. In 1Q 2002, the Company repurchased 395.7 million shares, representing 3.4% of the then issued share capital, at an aggregate sum of HK\$81 million in accordance with our share repurchase mandate to protect shareholder value. The shareholder funds as of 31st May, 2002 were HK\$1,295 million, which is 5 times of that of IPO in June 1993. The management will continue to strike for double-digit growth in its shareholder funds in future years.

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