



Successful business model and pursuit of customer service superiority and product innovation translated into sustainable growth in revenue and operating margin

Extensive own operating presence with appointed sales agents over 48 countries forms a strong network to interact with customers and to win market share

Participate in ETLC to take advantage of the CRM and SCM systems to enhance cost efficiency and to secure more repeat orders from customers by shortening lead times and fulfilling orders requirements

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.

We are pleased that the Group recorded revenue of HK\$718 million a continuous growth of 19% over the annualized 31st May, 2002 amount and a 60% improvement in operating margin to 10.7% in the midst of the global economic downturn during the year ended 31st May, 2003. This is, inter alia,

attributable to our unique business model and our commitment to customer services superiority and innovativeness.

Being an international jewellery and pearls brandname powerhouse backed with manufacturing and distribution setups, we have strategically operating subsidiaries in 7 jurisdictions (Germany, Austria, Thailand, Hong Kong, China, Japan and the US) to coordinate and interact with our appointed agents and importers in 48 countries for a worldwide coverage. This enables the Group to have more direct and timely access to the market, and to receive customer feedbacks in a more responsive manner.

With 78% of revenue coming from Europe and seeing a 15% growth in revenue in Europe (HK\$563 million for 2002/03 as compared to the annualized HK\$490 million for 2001/02), we have participated in the European Logistics and Technology Center (ETLC) established near Frankfurt, Germany, by our parent EganaGoldpfeil (Holdings) Limited. ETLC aims at enhancing the customer relationship management (CRM) and supply chain management (SCM) functions of the Group especially in Europe, for the long term 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 functions.

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.

The success of the transplantation of the Speidel factory from Germany to China, in terms of production proficiency, procurement efficiency, delivery fulfillment, cooperation with the Chinese partner and the quality of the work force adds confidence that China possesses the necessary ingredients for establishing advanced production facilities with international standard. We have established an additional jewellery factory in China, which started operation in August 2002 and reached 75% production capacity due to growth in orders within one year.

Additional factory in China to cope with increasing order requirements with advanced production know-how transferred from Speidel factory of Germany

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.

Acquisition of G&W to boost production efficiency and to secure new leads for customer label and brand products

In June 2003, we, in conjunction with our parent, acquired one-third interest in JOOP! GmbH, which allows us to effectively secure the JOOP! worldwide jewellery license on an exclusive and perpetual basis. JOOP! has high recognition in Germany respectively Europe, with strong growth potential in Asia.

Addition of JOOP! to complement the Group's impressive stable of brand names

During the year under review, we have increased our focus in marketing and distribution in Asia, which contributed 14% of the Group's revenue (HK\$100 million) as compared

Increased revenue contribution from Asia due to step-up marketing efforts and positive developments of JOOP!, MEXX and Pierre Cardin in Asia

Successful launching of Pierre Cardin and Esprit Jewel in Greater China region have set the right track to expand the revenue stake from Asia to 28% in 5-year time

Continue to exploit the US market with focus differentiation approach to target the high end and upscale segment

to 6% of the annualized 2002 amount (HK\$34 million). In addition to JOOP! and MEXX, Pierre Cardin jewel reflects encouraging development potential in Asia, in particular China and India, as well as in the travel gift items perspective.

In the third quarter 2003, we have entered into a licensing and business cooperation 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 the accession of China to the World Trade Organization.

Esprit Jewel, being well received in Germany, is gaining its market share in Taiwan and China markets - thanks to the Group's Globalization approach of "Think Global, Act Local" that we have been able to bring in the Global Trend as set by the market in Germany, respectively Europe, and comprehend the culture in Taiwan and China due to our presence in Asia for 25 years, for launching our communications program and product range to satisfy the consumers.

We are confident that our 5-year plan of enlarging the revenue split from Asia to 28% is achievable and is beneficial to the Group and our stakeholders.

In the US, we continue to pursue our focus differentiation strategy to target for the high-end market through our own brands Abel & Zimmermann, Kazto platinum and Jacquelin Designs. Our Thai production facilities, Keimothai, and diamond supply associate in Israel are fully geared to service the US market for which we are planning to introduce new concept collections in conjunction with major and famous brands to launch new series at an appropriate time. Currently, USA represents less than 10% of Group's revenue, and is set to increase its share to 22% in 5-year time.

At long last, Goldpfeil Jewel was introduced in the Basel Fair 2003 with encouraging response. With its inherent nature as a truly global brand with an enduring history, we believe the collections will be widely welcomed by the US audience, and should satisfy discreet customers in Japan, Middle East and Europe.

Goldpfeil Jewel to be limelight of the market

We will continue to commit ourselves to sustain a leading position as a respected multi-brand jewellery powerhouse to share the industry growth, through a proper allocation of our internal resources and a balanced mix of strategic alliance.

Strive to maintain leading position as a multi-brand jewellery marketer

As at 31st May 2003, the Group had a total workforce of approximately 2,860, of which 2,600 were labour workers located in our 5 production facilities located in Germany, Thailand, China and Hong Kong. The rest of 260 employees were sales and marketing, product development and administration staff, with 17 and 173 servicing at the Hong Kong Headquarters and European Headquarters in Germany. Our staff at the Headquarters and our operating subsidiaries in Germany, Austria, Thailand, PRC and the USA have, together with our appointed agents and distributors, contributed in establishing and servicing our customers covering 48 countries and territories.

Group worldwide workforce reached 2,860

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