

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

The Directors have the pleasure to submit their report together with the audited accounts of EganaGoldpfeil (Holdings) Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ended 31st May, 2003.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Company is an investment holding company. Its subsidiaries are principally engaged in (i) design, assembly, manufacturing and distribution of timepieces, jewellery and leather products; (ii) licensing or assignment of brandnames or trademarks to third parties; (iii) trading of timepiece components, jewellery and consumer electronic products; (iv) distribution of branded timepieces, jewellery and leather & lifestyle products through franchisees under the franchising arrangement and (v) holding of investments.

An analysis of the Group’s turnover and segment information for the year by business and geographical segments is set out in Note 3 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 71.

The Directors have declared an interim dividend of 1.00 cent (2002: 0.13 cent) per share, totaling approximately \$11,320,000 (2002: \$15,067,000), which was fully paid on 29th April, 2003.

The Directors recommend the payment of a final dividend of 3.00 cents (2002: Nil) per share to shareholders whose names appear on the register of members of the Company on 18th November, 2003, totaling approximately \$33,959,000 (2002: Nil). The final dividend will be payable in cash, with a scrip alternative at shareholders’ option, on or around 5th December, 2003. Together with the interim dividend, total dividends for the year ended 31st May, 2003 amounted to approximately \$45,279,000 (2002: \$15,067,000).

FINANCIAL REVIEW

Turnover reached \$2,578 million, which represents an encouraging 15% increment over the annualized 31st May, 2002’s amount (\$2,241 million).

Leather & lifestyle division recorded a 26% increment followed by jewellery at 19% and timepiece at 9%, over the 2002’s, which translates into a \$337 million revenue increase in aggregate.

Revenue split for the timepiece, jewellery, and leather & lifestyle divisions are 51%, 28% and 21% respectively.

During the year under review, the world faced an economic downturn, which was further hit by the SARS outbreak and Iraq war. Given our commitment to customer services superiority, the positive reception of the product range and having established a clientele with long term loyalty to the Group, we managed to maintain the gross margin at 39% (2001/02: 40%).

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

FINANCIAL REVIEW *(Cont'd)*

The Group's distribution costs for the year ended 31st May, 2003 were \$536 million, being 21% of sales. Through our participation in European Technology and Logistic Center (ETLC) and the share of the expenditure on the global marketing and promotion program by our appointed distributors and agents (which currently cover 96 countries) we target to keep the net distribution cost within 18% of sales going forward.

During the year, there had been certain additions which were integrated into the Group for furtherance of the business expansion plan, being

- (a) Comtesse Group which includes the trademark, its worldwide operations and the leather production facility in Germany;
- (b) The jewellery production plant in Germany and the operations of Guthmann & Wittenauer; and
- (c) An additional jewellery factory in China.

Expenditures relating to the integration of these additions and the ETLC are reflected in the administrative expenses. Given our proven prior experience of integrating additions to the Group, close monitoring of the merger program and sound internal control, the administrative expenses were reasonably contained within \$451 million, a 17% to sales rate (in par with 17% in 2001/02).

With the establishment of the European Headquarters (EHQ) in Germany to consolidate the 5 operating units there, which is anticipated to be in full operation in December 2003, it is expected that further improvement in operating efficiency will continue with a view that our administrative cost to sales be contained within 15%, moving forward.

As a result, the operating profit margin was 7.7% (5.9% in 2001/02). With positive operating working funds, the cash and cash equivalents as of 31st May, 2003 reached \$352 million. This is believed to be sufficient to meet the foreseeable working capital requirement and maintain a healthy operating cash flow.

Profit after tax and minority interests ("net profit") for the year exceed \$88 million, being a 139% increment over the annualised 31st May, 2002 amount (\$37 million). The net profit has taken into account the effect of other revenues, operating profit and finance costs as set out in Notes 4, 5 and 6 to the accounts respectively.

Average debtors turnover days for 2002/03 were 63, being ahead of the industry average of 120 days. Inventory turnover days for the ensuing year were 154 also well ahead of the norm of 220 days. Inventory as of 31st May, 2003 increased by \$144 million, along the revenue growth of \$337 million during the year. This translates into a faster inventory turnover of 8 days over the 2001/02's.

These are attributable to, inter alia, our tight credit policy, sound inventory management practice and the well reception of our product range by our customers - distributors, agents, importers and retail networks - which managed to have them turned into cash and recurring orders.

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

FINANCIAL REVIEW *(Cont'd)*

With a 15% revenue increment, the short term bank borrowings increased by 8% only. This is in line with our treasury policy to maximize our internal resources to fund the working capital.

The current ratio was at 1.5, which is 50% ahead of the industry yardstick. The leverage ratio (net borrowings to tangible net worth) was 0.84, again ahead of the industry average of 1.2. These enable the Group to leverage its borrowing level in an optimal manner and in a cost-effective means to cope with further expansions.

In February 2003, Credit Suisse First Boston, an international investment banking group, entered a 3 years US\$25 million convertible bonds in the Group, and subscribed US\$10 million (the first tranche of the bonds) which the Group had applied as working capital for furtherance of the Junghans business extension in Asia.

During the year, Asia represented 21% (13% in 2001/02) in terms of revenue split whereas Europe was at 74% (80% in 2001/02) and the US was at 5% (7% in 2001/02). This is in line with the Group's 5-year plan of growing the business with a 50:28:22 revenue split mix for Europe:Asia:US.

Our strategic alliance for expanding the Asia business demonstrated positive results. During the year, the sums set aside for these strategic investments were \$180 million. We will continue to maintain our ongoing relationship with these valuable strategic partners in extending our market share in Asia.

Since 2000, the Group had entered into certain strategic investments and alliance with a view to expanding our network in Asia, particularly the Greater China in a cost-effective and more expeditious manner. Our strategic participation in certain investment funds which had access to various public transport and car parking facilities service providers in Asia (for exploring Junghans Systems program opportunity) and consumer product networks in Asia (for exploiting our branded products distribution) achieved positive returns.

The recently concluded Closer Economic Partnership Arrangement (CEPA) between Hong Kong and Mainland China will allow Hong Kong companies to import products from Hong Kong to China in a more direct and a no import tariff manner. This is expected to greatly benefit our Group (which has Hong Kong based operating subsidiaries with manufacturing setups).

As such, the Group has realized the strategic investments in a consumer products trader and a building material supplier group which the Group had been utilizing their networks for channeling our fashion and sports products into China at lower import cost. The proceeds will be applied to establish more marketing and production programs for the China market to which the Group is now ready to import products directly in a price competitive manner. The Group, after divesting 22.25% interests, retains a 12.5% shareholding in the building material supplier group with a view to jointly exploring the distribution and retailing opportunities in Beijing and Shanghai.

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

FINANCIAL REVIEW *(Cont'd)*

To finance the business expansion program cost-effectively and with long term support, the Group successfully secured a 4-year \$240 million syndication loan in September 2003. The sums are to be applied for the refinancing of the existing facilities and i) the development of the EHQ and ETLC in Germany, ii) the development of various brand name products of the Group and iii) the Group's general working capital requirements.

Our revenue comprised Euro based revenue (72%), US\$ and HK\$ based revenue (21%), Japanese ¥ based revenue (3%), Swiss Franc based revenue (1%) and other foreign currencies based revenue (3%). Payments were in Euro (28%), US\$ and HK\$ (41%), Japanese ¥ (11%), Swiss Franc (16%) and others (4%). Also, a significant portion of the Group's assets and liabilities was denominated in Euro currency. As a result of the change in exchange rate of Euro currency during the year, the Group's operating results were benefited by the favorable exchange rate fluctuation (see Note 4(b) to the accounts for further details).

The Group practices natural hedging to the extent possible and currency hedging as far as is reasonably practicable with reference to its shipments schedule. As such, the foreign currency exposure has been properly contained.

The Group had no significant capital commitments as at 31st May, 2003. There are no material contingent liabilities or off-balance sheet obligations other than trade bills discounted in the ordinary course of business and those set out in Note 33 to the accounts.

The past year has seen satisfactory growth broadly in line with the plan, and the Group is at the pace of our 5-year plan to grow the revenue by 120% so as to secure our return on shareholder fund to exceed 15%.

The management remains confident and committed to put our plan into fruition for a more promising future with continuous growth in shareholder value.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in Note 29 to the accounts.

Under the Companies Law (2003 Revision) Chapter 22 of the Cayman Islands, share premium of the Company is available for distributions or payments of dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or payment of dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, no dividend shall be paid other than out of retained profits of the Company or the amount held in any share premium account. At 31st May, 2003, the Company's share premium amounted to approximately \$327,342,000 (2002: \$324,674,000) while its retained profits amounted to approximately \$90,691,000 (2002: \$124,095,000).

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately \$117,000 (2002: \$206,000).

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in Note 13 to the accounts.

SHARE CAPITAL

On 4th September, 2002, an ordinary resolution was passed at an extraordinary general meeting of the Company pursuant to which every 10 shares of \$0.10 each in the issued and unissued share capital of the Company were consolidated into one consolidated share of \$1.00 each (the "Share Consolidation"). The Share Consolidation became effective on 5th September, 2002.

Details of movements in share capital of the Company are set out in Note 28 to the accounts.

CONVERTIBLE BONDS/DEBENTURES

Details of the terms of the convertible bonds/debentures are set out in Note 26 to the accounts.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Memorandum and Articles of Association of the Company and the Companies Law of the Cayman Islands.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

BANK BORROWINGS

Particulars of bank borrowings at 31st May, 2003 are set out in Notes 24 and 25 to the accounts. There was no interest capitalised by the Group during the year.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Particulars of the Company's subsidiaries and associated companies at 31st May, 2003 are set out in Notes 16 and 17 to the accounts respectively.

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

SHARE OPTION SCHEME

The Company

Share options are granted to the Directors, executives and employees under the Executive Share Option Scheme of the Company (the "Scheme") adopted on 31st May, 1993. Details of the Scheme are as follows:

1. Purpose of the Scheme An incentive to executive management and employees.
2. Participants of the Scheme Eligible full-time employees including the Executive Directors of the Company and its subsidiaries.
3. Total number of shares available for issue under the Scheme and the percentage of issued share capital at 29th September, 2003 45,382,200 shares (after the Share Consolidation), representing approximately 3.99% of the issued capital.
4. Maximum entitlement of each participant under the Scheme 25% of the aggregate number of shares issued and issuable under the Scheme.
5. The period within which shares must be taken up under an option Within a maximum period of 10 years commencing from the date of grant of such options.
6. The minimum period for which an option must be held before it can be exercised
 - Year 1: up to 20% of shares comprised in the options at their dates of grant (or if applicable as subsequently adjusted in accordance with the Scheme);
 - Year 2: up to 40% of shares so comprised, less the percentage of shares in respect of which the options were exercised in Year 1;
 - Year 3: up to 60% of shares so comprised, less the percentage of shares in respect of which the options were exercised in Years 1 and 2;
 - Year 4: up to 80% of shares so comprised, less the percentage of shares in respect of which the options were exercised in Years 1, 2 and 3; and
 - Year 5: all shares so comprised in respect of which the options were to 10 not previously exercised.
(inclusive)

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

SHARE OPTION SCHEME *(Cont'd)*

The Company *(Cont'd)*

- | | | |
|----|---|--|
| 7. | The amount payable on acceptance of the options | Nominal amount of \$1.00 upon acceptance of the options. |
| 8. | The basis of determining the exercise price | The exercise price is the higher of:

(a) 85% of the average of closing prices of shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") of five business days immediately preceding the date of offer to grant the options; and

(b) the nominal value thereof. |
| 9. | The remaining life of the Scheme | The Scheme expired on 31st May, 2003 but the options granted during the tenure of the Scheme shall remain exercisable within 10 years from the date on which the options were granted. |

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

SHARE OPTION SCHEME (Cont'd)

The Company (Cont'd)

The following shows the particulars of the share options of the Company granted to the Directors, executives and employees of the Group that are required to be disclosed pursuant to Rule 17.07 of Chapter 17 and sub-paragraph 13(1) of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the year:

	Number of shares comprising the options outstanding at the beginning of the year (Adjusted for the Share Consolidation)	Number of options lapsed	Number of shares comprising the options outstanding at the end of the year	Date granted	Subscription price per share (Adjusted for the Share Consolidation) \$
Directors					
Hans-Joerg SEEBERGER	12,000,000	—	12,000,000	09/01/2000	2.11
Peter Ka Yue LEE	20,000	—	20,000	06/04/1994	1.28
	500,000	—	500,000	09/01/2000	2.11
Michael Richard POIX	38,000	—	38,000	06/04/1994	1.28
	500,000	—	500,000	17/01/2000	2.11
Employees under continuous contracts (excluding Directors)					
	32,540,000	215,800	32,324,200	06/04/1994 to 25/02/2000	*
	45,598,000	215,800	45,382,200		

* The options are exercisable at a subscription price of \$1.28 or \$2.11 or \$3.45 per share.

Note: The outstanding options can be exercised in accordance with the Scheme at any time from the date on which the options are granted and prior to the expiry of 10 years from that date, provided that up to 20%, 40%, 60% and 80% of the original number of shares comprising in the options may be exercised in the 1st, 2nd, 3rd and 4th year from the date granted, respectively.

No options were granted, exercised or cancelled during the year.

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

SHARE OPTION SCHEME (Cont'd)

Egana Jewellery & Pearls Limited ("Egana Jewellery")

Share options are granted to the directors, executives and employees of Egana Jewellery under the Executive Share Option Scheme of Egana Jewellery (the "Egana Jewellery Scheme"), which was adopted on 26th June, 1998 and became unconditional on 23rd July, 1998. Details of the Egana Jewellery Scheme are as follows:

1. Purpose of the Egana Jewellery Scheme An incentive to executive management and employees.
2. Participants of the Egana Jewellery Scheme Eligible full-time employees including the executive directors of Egana Jewellery and its subsidiaries.
3. Total number of shares of Egana Jewellery available for issue under the Egana Jewellery Scheme and the percentage of issued share capital at 29th September, 2003 13,125,000 shares (after the share consolidation which took effect on 5th September, 2002), representing approximately 4.23% of the issued capital.
4. Maximum entitlement of each participant under the Egana Jewellery Scheme 25% of the aggregate number of shares issued and issuable under the Egana Jewellery Scheme.
5. The period within which shares must be taken up under an option Within a maximum period of 10 years commencing from the date of grant of such options and ending on the date of expiry of the Egana Jewellery Scheme.
6. The minimum period for which an option must be held before it can be exercised Year 1: up to 20% of shares comprised in the options at their dates of grant (or if applicable as subsequently adjusted in accordance with the Egana Jewellery Scheme);
 Year 2: up to 40% of shares so comprised, less the percentage of shares in respect of which the options were exercised in Year 1;
 Year 3: up to 60% of shares so comprised, less the percentage of shares in respect of which the options were exercised in Years 1 and 2;

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

SHARE OPTION SCHEME (Cont'd)

Egana Jewellery & Pearls Limited (“Egana Jewellery”) (Cont'd)

- Year 4: up to 80% of shares so comprised, less the percentage of shares in respect of which the options were exercised in Years 1, 2 and 3; and
- Year 5: all shares so comprised in respect of which the options to 10 were not previously exercised.
(inclusive)
7. The amount payable on acceptance of the options Nominal amount of \$1.00 upon acceptance of the options.
8. The basis of determining the exercise price The exercise price is the higher of:
- (a) 85% of the average of closing prices of shares of Egana Jewellery on the Stock Exchange of five business days immediately preceding the date of offer to grant the options; and
 - (b) the nominal value thereof.
9. The remaining life of the Egana Jewellery Scheme The Egana Jewellery Scheme will expire on 23rd July, 2008.

On 1st September, 2001, amendments to Chapter 17 of the Listing Rules on share option schemes came into effect. If Egana Jewellery wishes to continue to grant options under the Egana Jewellery Scheme on or after 1st September, 2001, it must also comply with the new requirements set out in the Listing Rules. However, all options granted prior to the coming into effect of the said amendments will remain in full force and effect.

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

SHARE OPTION SCHEME (Cont'd)

Egana Jewellery & Pearls Limited (“Egana Jewellery”) (Cont'd)

The following shows the particulars of the share options of Egana Jewellery granted to the directors, executives and employees of Egana Jewellery group that are required to be disclosed pursuant to Rule 17.07 of Chapter 17 and sub-paragraph 13(1) of Appendix 16 of the Listing Rules during the year:

	Number of shares comprising the options outstanding at the beginning of the year (Adjusted for the share consolidation)	Number of shares comprising the options outstanding at the end of the year	Date granted	Subscription price per share (Adjusted for the share consolidation)
\$				
Directors				
Hans-Joerg SEEBERGER	3,300,000	3,300,000	09/01/2000	2.24
Peter Ka Yue LEE	250,000	250,000	09/01/2000	2.24
Michael Richard POIX	250,000	250,000	17/01/2000	2.24
Employees under continuous contracts (excluding Directors)				
	9,325,000	9,325,000	07/01/2000 to 31/01/2000	2.24
	<u>13,125,000</u>	<u>13,125,000</u>		

Note: The outstanding options can be exercised in accordance with the Egana Jewellery Scheme at any time after the date upon which the options are granted but not later than 10 years from the date on which the Egana Jewellery Scheme was adopted, provided that up to 20%, 40%, 60% and 80% of the original number of shares comprising in the options may be exercised in the 1st, 2nd, 3rd and 4th year from the date granted, respectively.

No options of Egana Jewellery were granted, exercised, lapsed or cancelled during the year.

Save as disclosed above, no right to subscribe for the securities of the Company or its associated corporations within the meaning of the Securities and Futures Ordinance (the “SFO”), has been granted by the Company to, nor have any such rights been exercised by, any person during the year.

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

DIRECTORS

The Directors who held office during the year and up to the date of this report were as follows:

Executive Directors

Hans-Joerg SEEBERGER (*Chairman and Chief Executive*)

Peter Ka Yue LEE

Michael Richard POIX

Non-executive Directors

David Wai Kwong WONG

Professor Udo GLITTENBERG

Dr. Götz Reiner WESTERMEYER

In accordance with Article 92 of the Company's Articles of Association, Mr. Peter Ka Yue LEE and Professor Udo GLITTENBERG shall retire by rotation from office and, being eligible, offer themselves for re-election. All other Directors continue in office.

DIRECTORS' SERVICE CONTRACTS

Mr. Hans-Joerg SEEBERGER's three-year service agreement with the Company was expired on 31st August, 2001. The service agreement was renewed for another three years until 31st August, 2004.

Mr. Peter Ka Yue LEE's three-year service agreement with the Company was expired on 31st December, 2001. The service agreement was renewed for another three years until 31st December, 2004.

Mr. Michael Richard POIX's three-year service agreement with the Company was expired on 31st March, 2001. The service agreement was renewed for another three years until 31st March, 2004.

Save as disclosed above, none of the Directors who are proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract with the Company or its subsidiaries which is not determinable by the Company or its subsidiaries within one year without payment of compensation (other than statutory compensation).

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

DIRECTORS' INTERESTS IN CONTRACTS

Mr. David Wai Kwong WONG is a director of International Taxation Advisory Services Limited, a company which received professional fees from the Group of approximately \$7,344,000 (inclusive of disbursements) during the year (2002: \$10,593,000) in connection with the provision of taxation and corporate advisory services to the Group.

Save as disclosed above, no contracts of significance to which the Company or any of its subsidiaries was a party and in which the Director had a material interest, whether directly or indirectly, existed at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Hans-Joerg SEEBERGER, aged 60, is the founder of the Group, Chairman and Chief Executive of the Company. He has more than 22 years' experience in the timepiece, jewellery and leather business in Asia and Europe. He is responsible for the Group's overall corporate policy and development strategy as well as overseeing the Group's operations worldwide, particularly the financial and marketing aspects.

Peter Ka Yue LEE, aged 56, is responsible for the financial and general management of the Group's Hong Kong operations. Before joining the Group, he worked as an executive in marketing and corporate management in several international companies in the consumer and manufacturing industries. He joined the Group in 1978. Mr. Lee is also a director of The Hong Kong Watch Manufacturers Association Limited.

Michael Richard POIX, aged 51, joined the Group in October 1988. He previously worked with a large German mail order house, a large German department store organisation as a foreign trader in their trade departments and a retail company in Germany as the head of the purchasing department for watches, jewellery and electronics. He is responsible for the day-to-day operations of the Group's business and ensuring compliance with the Group's obligations under its brandname licences.

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(Cont'd)*

Non-executive Directors

David Wai Kwong WONG, aged 45, has over 22 years' experience in finance, accounting, corporate and taxation affairs. He is a fellow of the Association of Chartered Certified Accountants, and an associate of the Hong Kong Society of Accountants, the Australian Association of Practising Accountants and the Australasian Association of Secretaries and Managers. He is a director of International Taxation Advisory Services Limited and is also a non-executive director of Egana Jewellery and six other Hong Kong listed companies.

Professor Udo GLITTENBERG, aged 59, is a professor in business administration, having studied in the United States and Europe. Before establishing two private business schools in Germany, he was the chief executive of a steel and plastics manufacturing group and a team leader in a Chinese-German government co-operation project in Shanghai, the People's Republic of China.

Dr. Götz Reiner WESTERMEYER, aged 62, was previously the managing director of a major Japanese consumer electronics company based in Düsseldorf, Germany, for over 12 years, and had worked as an executive in charge of the consumer electronics division of a major conglomerate headquartered in Turkey. He is currently the executive of a German organisation representing certain interests from the Eastern Europe for consumer electronics products. He obtained his doctorate in joint venture management from Munich University. He has extensive experience in the import and distribution of consumer electronic products and other consumer products throughout Europe.

Biographical details of senior management of the Group are set out in Senior Management section on pages 10 and 11.

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

At 31st May, 2003, the interests and short positions of the Directors and chief executive in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register maintained by the Company under section 352 of the SFO or as notified to the Company were as follows:

The Company

	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total Interests	Total Interests as % of the issued share capital	Underlying shares (share options)	Total Interests (including underlying shares) as % of the issued share capital
Number of shares of \$1.00 each in the Company								
Hans-Joerg SEEBERGER	—	—	—	449,878,475	449,878,475	39.74%	12,000,000	40.80%
				(Note i)			(Note i)	
Peter Ka Yue LEE	530,291	—	8,026,838	—	8,557,129	0.76%	520,000	0.80%
			(Note ii)				(Note ii)	
Michael Richard POIX	2,826,586	—	—	—	2,826,586	0.25%	538,000	0.30%
							(Note iii)	
Professor Udo GLITTENBERG	115,200	—	—	—	115,200	0.01%	—	0.01%
Dr. Goetz Reiner WESTERMEYER	288,000	—	—	—	288,000	0.03%	—	0.03%

Notes:

- i. These shares were registered in the name of Peninsula International Limited and its nominee which held the same as nominee for the Captive Insurance Trust, a discretionary trust whose prospective beneficiaries included Mr. Hans-Joerg SEEBERGER and his family. The options, exercisable at \$2.11 per share, were granted pursuant to the Company's Executive Share Option Scheme.
- ii. These shares were beneficially owned by Joshua Limited, a company which was wholly and beneficially owned by Mr. Peter Ka Yue LEE. 20,000 and 500,000 options, exercisable at \$1.28 and \$2.11 per share respectively, were granted pursuant to the Company's Executive Share Option Scheme.
- iii. 38,000 and 500,000 options, exercisable at \$1.28 and \$2.11 per share respectively, were granted pursuant to the Company's Executive Share Option Scheme.

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (Cont'd)

Associated Corporations

Egana Jewellery

	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total Interests	Total Interests as % of the issued share capital	Underlying shares (share options)	Total Interests (including underlying shares) as % of the issued share capital
--	--------------------	------------------	---------------------	-----------------	-----------------	--	-----------------------------------	--

Number of shares of \$0.50 each in Egana Jewellery

Hans-Joerg SEEBERGER	—	—	—	230,494,099 (Note i)	230,494,099	74.30%	3,300,000 (Note iii)	75.37%
Peter Ka Yue LEE	73,651	—	1,114,838 (Note ii)	—	1,188,489	0.38%	250,000 (Note iii)	0.46%
Michael Richard POIX	373,398	—	—	—	373,398	0.12%	250,000 (Note iii)	0.20%

Notes:

- i. 1,044,955 shares were registered in the name of Peninsula International Limited and its nominee which held the same as nominee for the Captive Insurance Trust, a discretionary trust whose prospective beneficiaries included Mr. Hans-Joerg SEEBERGER and his family. 229,449,144 shares were registered in the name of the Company and its nominee. By virtue of his interest in the Company under the SFO, Mr. Hans-Joerg SEEBERGER was deemed to be interested in these shares.
- ii. These shares were beneficially owned by Joshua Limited, a company which was wholly and beneficially owned by Mr. Peter Ka Yue LEE.
- iii. The options, exercisable at \$2.24 per share, were granted pursuant to Egana Jewellery's Executive Share Option Scheme.

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (Cont'd)

Associated Corporations (Cont'd)

Tonic Industries Holdings Limited ("Tonic")

	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total Interests	Total Interests as % of the issued share capital	Underlying shares (share options)	Total Interests (including underlying shares) as % of the issued share capital
Number of shares of \$0.10 each in Tonic								
Hans-Joerg SEEBERGER	—	—	—	155,002,869	155,002,869	24.40%	—	24.40%
				(Note i)				
Peter Ka Yue LEE	—	—	—	—	—	—	1,810,000	0.28%
							(Note ii)	

Notes:

- i. The shares were held by wholly-owned subsidiaries of the Company. By virtue of his interest in the Company as disclosed above, Mr. Hans-Joerg SEEBERGER was deemed to be interested in these shares and disclosed the same under the SFO.
- ii. The options, exercisable at \$0.70 per share, were granted pursuant to the share option scheme of Tonic.

Certain Directors held certain nominee shares in subsidiaries in trust for the Company or its subsidiaries at 31st May, 2003.

Save as disclosed above, as at 31st May, 2003, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations within the meaning of Part XV of the SFO which were required to be notified to the Stock Exchange and the Company pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which are required to be entered in the register under section 352 of the SFO.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS OTHER THAN THE DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY

At 31st May, 2003, the following persons, other than the Directors or chief executive of the Company, held an interest in the shares or underlying shares of the Company as recorded in the register maintained by the Company under section 336 of the SFO:

			Total Interests	Underlying	Total Interests
			as % of the	shares	(including
			issued share	(convertible	underlying
	Corporate	Total	capital	bonds)	shares) as %
	Interests	Interests		of the issued	share capital

Number of shares of \$1.00 each in the Company

Credit Suisse First Boston (Hong Kong) Limited (<i>Note i</i>)	1,900,497	1,900,497	0.17%	76,426,039	6.92%
Credit Suisse First Boston (International) Holding AG (<i>Note ii</i>)	1,900,497	1,900,497	0.17%	76,426,039	6.92%
Credit Suisse First Boston (<i>Note ii</i>)	1,900,497	1,900,497	0.17%	76,426,039	6.92%
Credit Suisse Group (<i>Notes i and ii</i>)	1,900,497	1,900,497	0.17%	76,426,039	6.92%

Notes:

- i. These interests were beneficially held by Credit Suisse Group and notification of such interests was filed with the Company upon the commencement of the SFO which came into effect on 1st April, 2003.
- ii. Duplication of holding of Credit Suisse First Boston (Hong Kong) Limited, by virtue of the direct or indirect interests in Credit Suisse First Boston (Hong Kong) Limited.

All the interests stated above represent long positions. At 31st May, 2003, no short positions were recorded in the register required to be kept under section 336 of the SFO.

Save as disclosed above, at 31st May, 2003, the Company had not been notified by any other person (other than the Directors and chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register maintained by the Company under section 336 of the SFO.

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers in aggregate accounted for approximately 17% of the total sales of the Group and the largest customer accounted for approximately 4% of the total sales of the Group.

During the year, the five largest suppliers in aggregate accounted for approximately 34% of the total purchases of the Group and the largest supplier accounted for approximately 11% of the total purchases of the Group.

At 31st May, 2003, none of the Directors, their associates, or any shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers or suppliers.

EMPLOYEES

At 31st May, 2003, the Group employed approximately 4,680 staff. Remuneration is determined by reference to their qualifications and experiences of the staff concerned. The Group has adopted a performance evaluation policy whereby employees with outstanding performance will be rewarded.

CONNECTED TRANSACTIONS

Details of the connected transactions for the year are set out in Note 34(b) to the accounts. The independent Non-executive Directors have reviewed the connected transactions set out in Note 34(b) and confirmed that these transactions were:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms and were fair and reasonable so far as the shareholders of the Company were concerned and in the interest of the Company as a whole; and
- (iii) within the relevant cap amounts as agreed with the Stock Exchange.

Save as disclosed therein, there were no other transactions which needed to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Except that the Non-executive Directors are not appointed for a specific term but are subject to retirement by rotation and re-election at annual general meetings of the Company, the Company was in compliance with the Code of Best Practice as set out in the Appendix 14 of the Listing Rules throughout the year.

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

AUDIT COMMITTEE

The Audit Committee, comprising not less than two independent Non-executive Directors, mainly focuses on the review and supervision of the Company's financial reporting process and internal controls.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors has interests in any business which compete or are likely to compete, either directly or indirectly, with the business of the Company during the year ended 31st May, 2003 and up to the date of this report.

SUBSEQUENT EVENTS

Details of significant subsequent events are set out in the Note 35 to the accounts.

AUDITORS

Arthur Andersen & Co acted as auditors of the Company up to and including the year ended 31st December, 2001. Arthur Andersen & Co resigned on 26th July, 2002 and the Directors appointed PricewaterhouseCoopers to fill the casual vacancy. PricewaterhouseCoopers audited the accounts for the year ended 31st May, 2003.

On behalf of the Board



Hans-Joerg SEEBERGER

Chairman and Chief Executive

Hong Kong, 29th September, 2003