

Chairman's Statement

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, 2004.

We are pleased that the Group recorded a historical high in revenue, exceeding HK\$3,513.4 million, an encouraging increment of 36% over the prior year's.

Thanks to our unique Brand Pyramid strategy (which involves the implementation of various brands in different market segments), our Group remains to be a trend setter in the global fashion accessory industry (comprising timepieces, jewellery, leather, footwear and optics) with a market size of over US\$130 billion.

This strategy helps the Group cover the fashion to the luxurious markets (which are most demanded and enjoying relatively faster growth), and diversifies business risks.

Currently the Group has a well-balanced portfolio of 48 brands with 34 self-own and 14 under exclusive license with global catch.



70% of the Group's revenue came from the Group's 10 key focus brands, being Goldpfeil, Comtesse for the luxurious sector; JOOP!, Cerruti 1881, Junghans, Dugena, Sioux for the affordable luxury and modern classics; Carrera, Pierre Cardin, Esprit, MEXX as fashion statement. National Geographic timewear and Puma timewear are the latest additions to the portfolio targeting the more sportive affluent consumers.

We shall continue to practice this "multi-brand" approach to help capture the rising demands for branded fashion accessories, explore new market potential and raise brand awareness.

Europe Enjoying Continuous Growth & Wider Operating Margin

Europe saw 27% increase in revenue exceeding HK\$2,431.8 million, which represents 69% of Group's total (FY 02/03: 74%).

The European Technology and Logistic Center (ETLC) in Germany started operation in June 2003. Starting December 2003, we gradually moved to the European Headquarters (EHQ) at Frankfurt - Offenbach, Germany with a full settling-in by April 2004. The combined effect of ETLC and EHQ enhances the Group's logistics (SCM) efficiency and customer relation management (CRM) effectiveness. As a result, we are able to shorten order fulfillment time, faster inventory turnover rate and enrich cost effectiveness, resulting in higher revenue and wider operating profit margins (by 1% which is expected to be recurring in the current 5-year plan).

The EganaGoldpfeil Spring Fair (in January) and Summer Fair (in June) hosted at the Exhibition Hall (the largest of this nature in Germany) in the EHQ demonstrated promising results with positive remarks from participants, as more collections were presented, faster delivery were facilitated, and, more importantly, better services to customers were made possible (due to the exhibition hall being attached to the office of EHQ enabling responsive services at spot).

In June 2003, the Group acquired a distribution network in Germany which is complement to the established distribution coverage in Europe. During the year, we acquired 1/3 interests in JOOP! GmbH which effectively enabled the Group to secure the JOOP! Timepieces, Jewellery, Leather, Accessories such as scarfs, belts etc. and Footwear worldwide license on an exclusive and perpetual basis. This has strong business potential not only in Europe, but also in Asia which are in need for affordable luxury branded fashion accessories. Continuous double-digit growth in Europe, our main market is expected.

Asia Increasing Revenue Split from 21% to 27% Surpassing our Target

Asia has shown positive signs of recovery from SARS and after effects of Iraq-war, during the year.

Statistics indicated that jewellery is likely to be the third major product (after housing and cars) that Chinese consumers will seek, with total consumption in excess of RMB100 billion in 2003, targeting for RMB150 billion

by 2010. We expect China is the biggest potential market for jewellery in the world. In addition, timepieces appear to be the fifth major product in demand in China, with leatherwear (of foreign brand) having strong favor in the cities in China.

The Closer Economic Partnership Arrangement (CEPA) between Hong Kong and Mainland enables Hong Kong operations to enjoy a zero (PRC) import-tariff (which would otherwise be at 25%, 28% and 35%) for import of timepieces, leather and jewellery to China respectively.

The Group manages to establish distribution relationship with certain importers to China, through whom we open the jewellery and timepieces market there.

We have been sourcing bought-in-finished goods (B-I-G) on normal merchandise from local partners which had better local culture comprehension to penetrate into China market through the importers. The B-I-G strategy demonstrated success in opening up our market in Europe which is now developed into our core market supported by our in-house produced branded products. It shows that this strategy is with lesser risk and higher chance of success in opening up new market. Moreover, this approach helps secure our credit exposure and enrich our corporate profile, in addition to revenue contribution.

As regards our branded products which are in-house produced, we will pursue strategic alliance/partnership with local partners having strong distributing and retailing

capabilities. In the joint venture, we contribute our strength in brand building, marketing, promotion and product development, in addition to the supply of the products.

During the year, we entered into business cooperation agreement with a China partner directly - a well established fashion group to launch Pierre Cardin as fashionable and contemporary jewellery nationwide in the Mainland.

Collaboration with a PRC based retail network and distributors is actively undertaken by our Asian team, which has among others, enabled Esprit Timewear & Jewel gaining market share in China.

Strategic alliance has been in place for introducing Junghans Systems (transponder) watch program in Hong Kong, Shanghai, Guangzhou, Taiwan and Singapore. Beijing and Malaysia are on the pipeline.

With the "Individual Visit" scheme under CEPA (under which Chinese visitors are able to travel to Hong Kong on their own, which was not permitted previously), it revealed 5.66 million of visitors to Hong Kong consuming HK\$12 billion during the 6 months ended 30th June, 2004. 32 cities are now eligible for the "Individual Visit" scheme which has a potential of 150 million visitors. To ride this wave (which also has the cross synergy of introducing our brand profile to Mainland upon the visitors returning to China, thereby enhancing the market potential for our branded portfolio there), we have come

to terms to franchise our Dugena chain shop concept in Hong Kong with a view to extending it to China (with Southern China as the first footprint).

Japan, Taiwan and Singapore show growth in timepieces and jewellery industries, for which we have poised to capture an increase in order.

The above had expedited our growth plan in Asia, having reached a 27% revenue share in FY 03/04, the first year of penetration surpassing our initial target to reach 27% revenue split in the 4th year in our 5-year Program.

During the year, Asia contributed HK\$950.8 million revenue (HK\$538.6 million in FY 02/03); which adds confidence to the appropriateness of our business strategies for the region.

As an act of confidence in the Group, Credit Suisse First Boston, an international investment bank, has in January 2004 further subscribed to the Group's US\$15 million convertible bonds with maturity in February 2006. The proceeds from these bonds is being applied for expansion of Junghans business in Asia and relocation of production processes to Hong Kong for faster penetration of Mainland China market by taking advantage of CEPA.

In February 2004, Merrill Lynch, an international investment bank subscribed US\$10 million 5-year convertible bonds of Egana Jewellery & Pearls Limited ("Egana Jewellery"), a listed subsidiary (approximately 71% own) of EganaGoldpfeil, the

proceeds of which were applied as working capital for the Asian jewellery business to cope with its growth momentum. Starting from November 2004, Egana Jewellery and Merrill Lynch each have an option for Egana Jewellery to issue further convertible bonds with maturity in February 2009 to the extent of US\$30 million the proceeds from which are intended for the expansion of jewellery business in Asia and the US.

US Revenue Growing By 9%

Revenue of US amounted to HK\$130.9 million (HK\$120 million in FY 02/03), primarily derived from our watch and jewellery divisions from the high-end branded markets pursuant to our focus differentiation strategy. Possibilities of strategic alliance and co-branding with US based chain stores and outlets are actively pursued with a view to increasing the US revenue share from the current 4% to 20% as our 5-year plan.

Vertically Integrated Operations - A Distinguished Feature in our Industry

Being a truly vertically integrated operations from product design and development, manufacturing, marketing to distribution, we established 14 production plants - 7 in Asia for the normal seasonal collections and 7 in Europe for high-end products - this structure is to set for the global trend.

In addition, we set in 14 strategic jurisdictions (Germany, Austria, the Netherlands, Switzerland, Italy, Portugal, France, UK, Hong Kong, China, Thailand, India, Japan and US) our own operating subsidiaries for brand building,

marketing and distribution functions, which together with our appointed distributors and agents established a network of 13,800 points-of-sales in 100 countries.

We will continue to pursue the "vertical integration" model which enables us to have a timely response to the fast-changing consumer behaviour; more effective control over product quality and cost; and better response to customer needs, thereby maintaining a more stable profit margin.

Timepieces

It enjoyed strong organic growth recording a 27% increment.

Junghans Systems (transponder) watch program has positive development in Asia which perceives "contactless" mode as the trend for this decade.

Globally, radio controlled technology for which Junghans is a pioneer in application, is gaining welcome reception. Collaboration between Junghans and Seiko Epson on radio controlled timepieces worldwide since September 2003 reflected positive development. In Basel Fair held in April 2004, Junghans introduced to the world the first-ever "Cross Border" radio controlled timepieces, with overwhelming response.

Added to the portfolio is the National Geographic watch license, to which Junghans' technology will be applied to meet the uncompromising challenge of the most

demanding sportives and adventurers, with a target launch in 2005.

Puma watch licence addition in May 2004 is timely to add our core strength in the sports segment which is revealing increasing attention.

Carrera, Cerruti 1881 and JOOP! are well positioned for the emerging (and enlarging) affordable luxury branded product categories.

The introduction of Goldpfeil Geneva Watch of limited edition from Europe to Asia since April 2004 attracts strong enquiry and attention.

In FY 03/04, timepieces division contributed 47% of Group's revenue.

Jewellery

It saw an encouraging 36% growth, and contributed 28% of Group's revenue.

The revenue split from Asia within the jewellery division jumped from 14% to 29% - thanks to CEPA between Hong Kong and the PRC which makes us uniquely positioned to import jewellery into China in a more cost effective manner, and our collaboration with the PRC importers and local (Mainland) partners to extend our market share there. Branded jewellery is having increasing demand in Asia.

In Europe, Katarina Witt by Dugena, JOOP! jewellery,

Esprit jewel and MEXX Jewel continue to gain market share, whereas in the US, the focus differentiation strategy at high-end market increases jewellery revenue by 16%.

Leather & Lifestyle

Comtesse and Goldpfeil both reflect promising development in Asia, particularly in Japan and Taiwan. Comtesse ranks 7th and Goldpfeil moves from 47th to 15th in Japan in terms of brand awareness. In Japan, we have established 100 points-of-sales for Goldpfeil/Comtesse, whereas in Taiwan, the number reached 15. In China, we plan to open 30 Goldpfeil/Comtesse/JOOP! shops in 5 key cities as our 3-year plan.

Sioux GmbH addition provides a full range of footwear collection to the Group, which includes the contribution to develop the elite footwear lines for Goldpfeil brand. In addition, it helps JOOP! footwear in terms of product development and distribution.

In Germany, Goldpfeil (No. 1), Comtesse, JOOP! and Sioux are all within top 10 brand awareness in the luxury leather goods and footwear segments. This serves as a good foundation to introduce multi-brand concept to accelerate growth in Asia.

In addition, the co-branding approach (Stefanie Graf by Goldpfeil; Mercedes-Benz by Goldpfeil) helps widen the customer portfolio and further increase the brand awareness globally.

During the year, this division recorded a 59% upsurge with its revenue representing 25% of Group's total.

Leading Stance Enjoying Continuous Promising Growth in After Tax Earnings and Shareholder Funds

Distributable earnings reached HK\$141.9 million, an encouraging 61% upsurge. Our shareholder funds continuously reflect double digit growth (12%) to reach HK\$1,433.2 million.

To sustain our leading position, we will optimize our resources as far as practicable for long term growth, to capitalize on our brand building strength, extensive network coverage, quality product and services competence, and innovativeness (in product and communications).

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; our core value belief ("Caring, Integrity and Fairness") governing our Corporate Governance philosophy; and the proven business model, the Group remains confident of realizing our achievable visions for a promising future.



Hans-Joerg Seeberger

Chairman and Chief Executive

Hong Kong, 27th September, 2004