

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 EganaGoldpfel (Holdings) Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ended 31st May, 2004.

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 & lifestyle 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 77.

The Directors have declared an interim dividend of 2.00 cents (2003: 1 cent) per share, totaling approximately \$23,407,000 (2003: \$11,320,000), which was fully paid on 25th March, 2004.

The Directors recommend the payment of a final dividend of 2.5 cents (2003: 3.00 cents) per share to shareholders whose names appear on the register of members of the Company on 16th November, 2004, totaling approximately \$29,427,000 (2003: \$33,959,000). Together with the interim dividend, total dividends for the year ended 31st May, 2004 amounted to approximately \$52,834,000 (2003: \$45,279,000).

FINANCIAL REVIEW

Group revenue exceeded \$3,513.4 million, a remarkable increment of 36% from \$2,577.9 million in FY 02/03. This is due to our core market, Europe reflecting a promising 27% growth; a welcome increase in the revenue share from 21% (in FY 02/03) to 27% in Asia, and a modest 9% growth recorded by the US market. Generally, the confirmed orders in hand covering 6 months worth of shipments are at a higher level than last year.

Leather & lifestyle division recorded a 59% increment followed by jewellery at 36% and timepieces at 27% over FY 02/03’s which translates into a \$935.5 million increase in revenue.

Revenue split for timepieces, jewellery and leather & lifestyle divisions are 47%, 28% and 25% respectively.

In exploring new markets in Asia, particularly Mainland China, the Group’s gross margin for FY 03/04 was slightly diluted to 38% (39% in FY 02/03). However, with the increase in revenue (and market share), the overall gross profit contribution was increased by 33% to reach \$1,345.7 million.

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

FINANCIAL REVIEW *(Cont'd)*

With a gradual increase of in-house production for order fulfillment in Asia market going forward, the gross margin is expected to widen, reflecting better production efficiency for the benefit of the customers, a pattern that has been established in the European market development.

Administration expenses were at \$544.6 million. With increase in revenue (and better utilization of the capacity), the percentage to revenue reduced from 17.5% to 15.5%. This demonstrated the proactiveness of the Group in establishing its administrative and supportive platform, in preparing for the anticipated business growth which starts to show positive effect this year (and going forward).

Distribution costs to revenue were at 19.5%, a 1.3% improvement from 20.8%. The SCM and CRM cost savings due to ETLC and EHQ in Europe help absorb the increase in promotion and marketing outlays to open new markets in Asia.

As a result, profit from operations at a margin of 9% reached \$311.5 million, up 10% from last year. This translates into an operating cash inflow and results in cash and cash equivalents of \$562.7 million.

Our revenue and assets were denominated in Euro and Swiss Franc 64%, US\$ and HK\$ 31% and Others 5%. Payments and liabilities were in Euro and Swiss Franc 44%, US\$ and HK\$ 52% and Others 4%.

The Group practices natural hedging to the extent possible and currency hedging as far as is reasonably practicable. Hence, the foreign currency exposure against adverse exchange movements has been adequately contained.

Distributable earnings attributable to shareholders amounted to \$141.9 million, an encouraging 61% upsurge, representing a return on equity of 9.9% (6.9% in FY 02/03).

The shareholder fund was \$1,433.2 million, showing a continuous double digit growth (12%).

With the addition of the 1/3 interests in JOOP! GmbH for securing the JOOP! trademark for timepieces, jewellery, leather, accessories such as scarfs, belts etc, and footwear worldwide, the acquisition of a German distribution business, the acquisition of Sioux GmbH, a leading shoes manufacturer and distributor, and the additional investment (of \$53 million) in strategic partnerships to help realize the Asian business plans for furtherance of the Group's core competence as well as increase in working capital along with the business growth, the Group's total assets reached \$4,037 million (\$3,378 million in FY 02/03). This is however prior to including the fair market value of the brand portfolio (which is estimated to be no less than \$3,500 million) - a valuable off balance sheet Group asset.

Working capital was \$1,165.8 million with current ratio at 1.72x (comparing to 1.47x in FY 02/03, and the market average of 1x). This enables the Group to plan its financial resources in a more cost effective manner and with more certainty for funds to cope with the business expansion.

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

FINANCIAL REVIEW *(Cont'd)*

Given the tight credit control policy and ongoing inventory control measures, the debtors turnover was at a comfortable 77 days (well ahead of the industry norm of 120 days), and the inventory turnover was 137 days (11% improvements from FY 02/03's 154 days). The ETLC operations in Germany contributes to the faster inventory turnover rate, in addition to our products being more receptive to our customers in existing and new markets with faster re-orders.

Interest cover was at a healthy level (5.4x) pursuant to a sound financial model in place, viz-a-viz capital investment being financial by medium term borrowings and equity funds, with debts financing as working capital.

The leverage ratio (net borrowings as a proportion to shareholder fund) stood at 0.62x ahead of market average of 1x. The gearing ratio (interest bearing debts/shareholder fund) was at 1.01x well within the industry threshold of 1.35 times. This reflects the Group's sound financial position to leverage its borrowings in an optimal manner to prepare for future business growth and capital investment.

The Group had no significant capital commitment as at 31st May, 2004. There are no material contingent liabilities or off balance sheet obligations other than trade bills discounted in the ordinary course of business as noted in the accounts.

The past year has demonstrated encouraging growth, surpassing our target, and the management is confident that the Group is at the pace of our 5-year plan (which started in FY 03/04) to grow the revenue by 180% so as to secure our return on shareholder fund to exceed 18%.

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 payment 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, 2004, the Company's share premium amounted to approximately \$345,958,000 (2003: \$327,342,000) while its retained profits amounted to approximately \$34,502,000 (2003: \$90,691,000).

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 \$220,000 (2003: \$117,000).

FIXED ASSETS

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

SHARE CAPITAL

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, 2004 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, 2004 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 27th September, 2004 45,229,200 shares, representing approximately 3.84% 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 and the percentage of the shares comprising the options that can be exercised during the period
 - 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)*

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|--|--|
| 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	Number of options lapsed	Number of shares comprising the options outstanding at the end of the year	Date granted	Subscription price per share \$
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
Ho Yin CHIK	144,800	—	144,800	23/03/1997	3.45
Employees under continuous contracts (excluding Directors)					
	32,179,400	95,000	32,084,400	06/04/1994 to 25/02/2000	*
	45,382,200	153,000	45,229,200		

* 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 can 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 27th September, 2004

13,125,000 shares, representing approximately 3.96% 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 and the percentage of the shares comprising the options that can be exercised during the period

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)

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| | 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	Number of shares comprising the options outstanding at the end of the year	Date granted	Subscription price per share \$
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 can 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

Ho Yin CHIK (appointed on 20th November, 2003)

Non-executive Director

David Wai Kwong WONG

Independent Non-executive Directors

Professor Udo GLITTENBERG

Dr. Götz Reiner WESTERMEYER

Andy Yick Man NG (appointed on 1st June, 2004)

In accordance with Article 84 of the Company's Articles of Association, Mr. Ho Yin CHIK and Mr. Andy Yick Man NG shall hold office until the forthcoming annual general meeting of the Company, and being eligible, offer themselves for re-election.

In accordance with Article 92 of the Company's Articles of Association, Mr. David Wai Kwong WONG and Dr. Götz Reiner WESTERMEYER shall retire by rotation from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. All other Directors continue in office.

DIRECTORS' SERVICE CONTRACTS

Mr. Hans-Joerg SEEBERGER previously entered into a service agreement with the Company which was expired and has been extended until 31st August, 2005.

Mr. Peter Ka Yue LEE previously entered into a service agreement with the Company which was expired and has been extended until 31st December, 2004.

Mr. Michael Richard POIX previously entered into a service agreement with the Company which was expired and has been extended until 31st December, 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 OF SIGNIFICANCE

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 61, is the founder of the Group, Chairman and Chief Executive of the Company. He has more than 23 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 57, 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 52, 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.

Ho Yin CHIK, aged 49, joined the Group in 1985 and was appointed as an Executive Director on 20th November, 2003. He is also the Group Treasurer and is responsible for the financial and treasury affairs of the Group. He has over 20 years' experience in auditing, financial and treasury fields. He is a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant.

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

Non-executive Director

David Wai Kwong WONG, aged 46, has over 23 years' experience in finance, accounting, corporate and taxation affairs. He is a fellow of the Association of Chartered Certified Accountants and a Certified Public Accountant. Mr. Wong is currently an independent non-executive director of six other Hong Kong listed companies and a non-executive director of Egana Jewellery and Tonic Industries Holdings Limited ("Tonic"). He is also a director of International Taxation Advisory Services Limited and an executive director of Incutech Investments Limited.

Independent Non-executive Directors

Professor Udo GLITTENBERG, aged 60, 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 63, was previously the managing director of a major Japanese consumer electronics company based in Düsseldorf, Germany, for over 13 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.

Andy Yick Man NG, aged 47, was appointed as an Independent Non-executive Director on 1st June, 2004. Mr. Ng has over 22 years' experience in the fields of finance, accounting, taxation and corporate governance. He is currently Teaching Fellow of the Faculty of Business Administration of The Chinese University of Hong Kong, a fellow of the Hong Kong Institute of Certified Public Accountants, a fellow member of The Taxation Institute of Hong Kong and CPA Australia. Mr. Ng currently also serves as an independent non-executive director of Incutech Investments Limited.

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, 2004, 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	Family	Corporate	Other	Total	Total	Underlying	Total Interests
	Interests	Interests	Interests	Interests	Interests	Interests	shares	(including
						as % of the	(share	underlying
						issued share	options)	shares) as %
						capital		of the issued
								share capital
Number of shares of \$1.00 each in the Company								
Hans-Joerg SEEBERGER	—	—	—	459,122,553	459,122,553	39.18%	12,000,000	40.20%
				(Note i)			(Note iii)	
Peter Ka Yue LEE	530,291	—	8,191,773	—	8,722,064	0.74%	500,000	0.79%
			(Note ii)				(Note iii)	
Michael Richard POIX	2,884,666	—	—	—	2,884,666	0.25%	500,000	0.29%
							(Note iii)	
Ho Yin CHIK	18,464	—	—	—	18,464	0%	144,800	0.01%
							(Note iv)	
Professor Udo GLITTENBERG	115,200	—	—	—	115,200	0.01%	—	0.01%
Dr. Goetz Reiner WESTERMEYER	288,000	—	—	—	288,000	0.02%	—	0.02%

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.
- ii. These shares were beneficially owned by Joshua Limited, a company which was wholly and beneficially owned by Mr. Peter Ka Yue LEE.

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)

The Company (Cont'd)

Notes: (Cont'd)

- iii. The options, exercisable at \$2.11 per share, were granted pursuant to the Company's Executive Share Option Scheme.
- iv. The options, exercisable at \$3.45 per share, were granted pursuant to the Company's Executive Share Option Scheme.

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 SEEGER	—	—	—	230,494,099 (Note i)	230,494,099	72.60%	3,300,000 (Note iii)	73.64%
Peter Ka Yue LEE	73,651	—	1,114,838 (Note ii)	—	1,188,489	0.37%	250,000 (Note iii)	0.45%
Michael Richard POIX	373,398	—	—	—	373,398	0.12%	250,000 (Note iii)	0.20%
Ho Yin CHIK	2,160	—	—	—	2,160	0%	—	0%

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 SEEGER 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 SEEGER 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

	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
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Number of shares of \$0.10 each in Tonic

Hans-Joerg SEEBERGER	—	—	—	129,602,869 (Note i)	129,602,869	20.40%	—	20.40%
Peter Ka Yue LEE	—	—	—	—	—	—	1,810,000 (Note ii)	0.28%

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, 2004.

Save as disclosed above, as at 31st May, 2004, 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 (the "Model Code") or which are required to be entered in the register under section 352 of the SFO.

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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.

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

As at 31st May, 2004, 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:

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

Number of shares of \$1.00 each in the Company

Credit Suisse Group	1,946,692	1,946,692	0.17%	155,290,729	13.42%
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(Notes i and ii)

Notes:

- i. These shares were beneficially held by Credit Suisse Group.
- ii. By virtue of the interest in its controlled corporations, Credit Suisse Group was also deemed to have short position in 1,939,041 underlying shares of the Company.

Save as disclosed above, all the interests stated above represent long positions.

Save as disclosed above, at 31st May, 2004, the Company had not been notified by any other person (other than the Directors or 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, sales to the Group's five largest customers in aggregate accounted for less than 30% of the total sales for the year.

During the year, the five largest suppliers in aggregate accounted for approximately 37% of the total purchases of the Group and the largest supplier accounted for approximately 9% of the total purchases of the Group.

At 31st May, 2004, 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, 2004, the Group employed approximately 5,200 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;
- (iii) in accordance with the relevant agreement governing them on terms that 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
- (iv) 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.

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

COMPLIANCE WITH THE CONTINUING DISCLOSURE REQUIREMENT UNDER CHAPTER 13 OF THE LISTING RULES

In accordance with the continuing disclosure requirements under Rule 13.21 of Chapter 13 of the Listing Rules (as amended on 31st March, 2004), the directors of the Company reported below details of the Group's loan agreements, which contains covenants requiring performance obligations of the controlling shareholder of the Company.

The Company has been granted a four-year transferable loan facility amounting to \$240,000,000 in September 2003 which requires that i) Mr. Hans-Joerg SEEBERGER, the controlling shareholder of the Company, continues to be the Chairman of the Group and control the day-to-day management of the Group and ii) Mr. Hans-Joerg SEEBERGER and his associates (as defined in the Listing Rules) own, directly or indirectly, at least 30% of the total issued share capital of the Company and be the single largest shareholder of the Company and do not sell, transfer, encumber or otherwise dispose of all or part of the shareholdings in the Company to any financial institution or other third party for financing purposes.

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.

AUDIT COMMITTEE

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

MODEL CODE

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in the Model Code under Appendix 10 of the Listing Rules.

PUBLIC FLOAT

On the basis of information that is publicly available to the Company within the knowledge of the Directors as at the date of this report, the Company has complied with the public float requirements of the Listing Rules.

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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, 2004 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 period ended 31st May, 2002 and the year ended 31st May, 2003. PricewaterhouseCoopers resigned on 28th May, 2004 and the Directors appointed RSM Nelson Wheeler to fill the casual vacancy. RSM Nelson Wheeler audited the accounts for the year ended 31st May, 2004.

On behalf of the Board



Hans-Joerg SEEBERGER

Chairman and Chief Executive

Hong Kong, 27th September, 2004