

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

The Directors have the pleasure in submitting their report together with the audited accounts of Egana Jewellery & Pearls Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the seventeen-month period from 1st January, 2001 to 31st May, 2002 (the “period”).

CHANGE OF FINANCIAL YEAR END

Pursuant to the directors’ resolution passed on 29th April, 2002, the Group has changed its financial year end from 31st December to 31st May, so as to be co-terminus with the year-end date of its ultimate holding company. The accompanying accounts cover seventeen-month period from 1st January, 2001 to 31st May, 2002.

ULTIMATE HOLDING COMPANY

The Directors consider EganaGoldpfeil (Holdings) Limited (“EganaGoldpfeil”), a limited company incorporated in the Cayman Islands and whose shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), to be the ultimate holding company.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the (i) design, manufacturing, distribution and trading of jewellery products and (ii) licensing or assignment of brandnames to third parties for the design, manufacturing and/or distribution of jewellery and consumer products other than timepieces.

An analysis of the Group’s turnover and segment information for the year ended 31st December, 2000 and the period is set out in Note 3 to the accompanying accounts.

MAJOR CUSTOMERS AND SUPPLIERS

During the period, the five largest customers in aggregate accounted for approximately 24% of the total sales of the Group and the largest customer accounted for approximately 6% of the total sales of the Group.

During the period, the five largest suppliers in aggregate accounted for approximately 36% of the total purchases of the Group and the largest supplier accounted for approximately 17% of the total purchases of the Group.

At 31st May, 2002, 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.

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RESULTS AND DIVIDENDS

The results of the Group for the period are set out in the consolidated profit and loss account on page 47.

During the period, the Directors have declared an interim dividend of 0.15 cent (2000: 0.38 cent) per share, which was fully paid on 15th November, 2001.

The Directors do not recommend the payment of a final dividend (2000: Nil) and recommend that the retained profits of approximately \$136,769,000 at 31st May, 2002 be carried forward.

FINANCIAL REVIEW

Group turnover shows an annualized drop of 10% to \$856 million (US\$110 million) for the 17 months to 31st May, 2002 (2002) as compared to \$671 million (US\$86 million) for the 12 months to 31st December, 2000 (2000). The turnover under achievement is relatively better than the 30% average industry sector contraction over the similar timeframe.

As indicated in 2001 second interim report, the drop in the turnover in the 12 months to 31st December, 2001 was due to the weak Euro. The Group has, by leveraging its inherent brand strength and parent company's distribution network, managed to show a promising revenue growth in the 5 months to 31st May, 2002 of 9% when compared to the first 12 months of 2001.

Geographical breakdown of 2002 turnover is Europe at 81% (84% in 2000), Asia Pacific at 6% (7% in 2000) and America at 13% (9% in 2000). While Asia Pacific performance given the regional economic difficulties, was encouraging, increasing American exposure is in line with Group's stated objective of America and Asia Pacific each contributing 25% in the long run.

In 2002, the operating profit from operations is \$68 million (\$64 million in 2000) or US\$9 million (US\$8 million in 2000). This translates into an operating profit margin of 8% (10% in 2000) and return on equity of 10% (13% in 2000). These results show an improving trend (operating margin at 13% for the period 5 months to 31st May, 2002) that is likely to continue, as the Group is in process of expanding manufacturing capacity to bring in-house currently outsourced production.

The Group has been able to meet increasing competitive challenges and the weakness in its main markets by not only striving to maintain its margins but also by keeping its costs under control. These efforts are reflected in the 9% fall in average annualized Distribution and Administration overheads for 5 months to 31st May, 2002, even though the overall 2002 figures are similar to 2000 figures. This reduction was partially achieved by targeted increase in the effectiveness of brand related expenditure that enabled the Group to maintain comparatively more profitable branded goods at 86% (86% in 2000) of the overall turnover.

Notwithstanding the difficult market conditions, with intense focus on active working capital management and continued credit risk evaluation, the Group managed to bring its debtor turnover days down to 45 days in 2002 from 51 days in 2000 and further ahead of the industry norm of 120 days.

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

FINANCIAL REVIEW *(Cont'd)*

The 2002 closing inventory of \$179 million (US\$23 million) is 3% higher than the 2000 figure of \$174 million (US\$22 million). Having regard to the expected seasonal increase in inventory levels during the spring to autumn period (with most of the major European and US trade shows falling in the first half of the year and Fall-Christmas sale planning and production occurring in summer), the closing inventory position is at a comfortable level. This shows that the management controls put in place are effective in reducing overall peak period working capital investment requirements.

In 2002, the Group financed its operations from internal resources and bank borrowings. The short-term bank borrowings for 2002 stand at \$145 million (\$115 million in 2000) or US\$19 million (US\$15 million in 2000). The current ratio of 1.8 and quick ratio of 1.2 are both ahead of industry averages, reflecting Group's sound liquidity position. Due to the positive operating cash flows, the available cash and cash equivalents are \$121 million (\$135 million in 2000) or US\$16 million (US\$17 million in 2000) in 2002. The management is confident that the available level of resources would be sufficient to meet foreseeable working capital requirements.

In 2002, the gearing ratio (total interest bearing debt/tangible net worth) is at a manageable 0.41, which is again below the market average of 1.1. The interest cover at 6 times further reinforces the Group's sound solvency position to prepare the Group for future business growth.

The Group practices natural hedging (having revenue and expenses denominated in the same currency) to the extent possible and has a practice of hedging currency notes as far as is reasonably practicable. Thus the foreign currency exposure has been properly contained.

The Group had no significant capital expenditure commitments as at 31st May, 2002.

Shareholder funds as of 31st May, 2002 stood at \$406 million (\$337 million in 2000) or US\$52 million (US\$43 million in 2000), representing 4 times the pre-listing figures of 1998. However, these figures do not take account of the Group's brand portfolio investments that are expensed out in the period they are incurred. To illustrate the point, 2002 net worth would increase by at least 14% or \$58 million if the independent valuation of Pierre Cardin Jewellery as on 31st December, 2001 were incorporated in the financial statements. Independent valuation of the brand portfolio suggests that on an inclusion of such sum to the Group's net asset, the intrinsic value will exceed \$1.3 billion.

EMPLOYEES

At 31st May, 2002, the Group had approximately 1,900 employees whom were remunerated based on their experience, their qualifications and the Group's performance and market conditions.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of the movement in share capital, share options and warrants of the Company during the period are set out in Note 21 to the accompanying accounts.

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RESERVES

Movements in reserves of the Group and the Company during the period are set out in Note 22 to the accompanying accounts.

Under the Companies Law (2001 Second 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 otherwise than out of retained profits of the Company or the amount held in any share premium account. At 31st May, 2002, the Company's share premium amounted to approximately \$31,227,000 (2000: \$31,224,000) while its accumulated deficit amounted to approximately \$14,822,000 (2000: Retained profits \$3,405,000 as restated).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

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.

SUBSIDIARIES AND AN ASSOCIATE

Particulars of the Company's subsidiaries and an associate as at 31st May, 2002 are set out in Notes 14 and 15 to the accompanying accounts respectively.

FIXED ASSETS

Details of the movements in fixed assets during the period are set out in Note 12 to the accompanying accounts.

BANK LOANS AND OVERDRAFTS

Particulars of bank loans and overdrafts at 31st May, 2002 are set out in Notes 18 and 19 to the accompanying accounts. There was no interest capitalised by the Group during the period.

DONATIONS

During the period, the Group made charitable and other donations of approximately \$16,000 (for the year ended 31st December, 2000: \$18,000).

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PENSION SCHEME AND COSTS

Details of pension scheme and costs are set out in Note 24 to the accompanying accounts.

SUBSEQUENT EVENTS

Details of significant subsequent events are set out in Note 29 to the accompanying accounts.

DIRECTORS

The Directors who held office during the period 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

Shunji SAEKI

Hartmut VAN DER STRAETEN

Michael BOMMERS

Burkhard MUELLER

(Resigned on 31st May, 2002)

Non-executive Directors

David Wai Kwong WONG

Charles Cho Chiu SIN

Eduardo Tang Lung LAU

Professor Zhengfu WANG

In accordance with Article 116 of the Company's Articles of Association, Mr. Peter Ka Yue LEE, Mr. Michael Richard POIX and Mr. David Wai Kwong WONG shall retire by rotation from office and, being eligible, offer themselves for re-election. All other Directors continue in office.

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DIRECTORS' SERVICE CONTRACTS

Mr. Hans-Joerg SEEBERGER previously entered into a service agreement with the Company for a term of three years commencing 1st January, 1998 until 31st December, 2000. The service agreement was expired and has been extended for three years until 31st December, 2003.

Mr. Peter Ka Yue LEE previously entered into service agreements with the Company until 31st December, 2001. The service agreement was expired and has been extended for three years until 31st December, 2004.

Mr. Michael Richard POIX previously entered into a service agreement with the Company for a term of thirty-nine months commencing 1st January, 1998 until 31st March, 2001. The service agreement was expired and has been extended for three years until 31st March, 2004.

Mr. Shunji SAEKI has entered into a service agreement with the Company commencing 1st January, 1998 and the service agreement shall continue thereafter unless and until the agreement is terminated.

Mr. Hartmut VAN DER STRAETEN has entered into a service agreement with the Company commencing 1st October, 1998 until 30th September, 1999. The service agreement has continued upon its terms unless and until the agreement is terminated.

Mr. Michael BOMMERS has entered into a service agreement with the Company commencing 1st January, 1998 and the service agreement shall continue thereafter unless and until the agreement is terminated.

Save as disclosed above, none of the Directors being proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract with the Company or its subsidiaries which is not terminable 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 SECURITIES

At 31st May, 2002, the interests of the Directors, chief executive and their associates in the securities of the Company and its associated corporation (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register maintained by the Company pursuant to section 29 of the SDI Ordinance were as follows:

The Company

| Name of Directors | Number of shares | | |
|----------------------|--------------------|----------------------------------|---------------|
| | Personal interests | Corporate interests | Total |
| Hans-Joerg SEEBERGER | — | 2,304,940,990 <i>(Note i)</i> | 2,304,940,990 |
| Peter Ka Yue LEE | 736,516 | 11,148,386 <i>(Note ii)</i> | 11,884,902 |
| Michael Richard POIX | 3,733,986 | — | 3,733,986 |

EganaGoldpfeil

| Name of Directors | Number of shares | | |
|----------------------|-----------------------------|------------------------------------|---------------|
| | Personal interests | Corporate interests | Total |
| Hans-Joerg SEEBERGER | — | 4,466,984,746 <i>(Note iii)</i> | 4,466,984,746 |
| Peter Ka Yue LEE | 5,302,915 | 80,268,380 <i>(Note ii)</i> | 85,571,295 |
| Michael Richard POIX | 28,265,860 | — | 28,265,860 |
| Shunji SAEKI | 616,400 <i>(Note iv)</i> | — | 616,400 |

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

DIRECTORS' INTERESTS IN SECURITIES (Cont'd)

Notes:

- i. 10,449,548 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. 2,294,491,442 shares were registered in the name of EganaGoldpfeil and its nominee. By virtue of his interest in EganaGoldpfeil pursuant to section 8 of the SDI Ordinance, 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. 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.
- iv. 86,400 shares were held by the spouse of Mr. Shunji SAEKI.

Except that certain Directors held certain nominee shares in subsidiaries in trust for the Company or its subsidiaries at 31st May, 2002, no Directors held an interest in the share capital of the Company or any of its subsidiaries other than those as disclosed above.

Save as disclosed above, at 31st May, 2002, none of the Directors or chief executive or their associates had any personal, family, corporate or other interests in the securities of the Company or its associated corporation which are required to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are deemed or taken to have under section 31 or Part I of the Schedule to the SDI Ordinance) or which are required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein.

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

CONNECTED TRANSACTIONS

Details of the connected transactions for the period are set out in Note 28 to the accompanying accounts. The independent Non-executive Directors of the Company have reviewed the connected transactions set out in Note 28(a) and confirmed that these transactions were:

- (i) in accordance with the terms of the agreements governing such transactions;
- (ii) in the ordinary and usual course of business of the relevant members of the Group;
- (iii) on normal commercial terms and were fair and reasonable so far as the shareholders of the Company were concerned; and
- (iv) within the amount calculated under the terms of the relevant agreements and, in respect of the transactions set out in Note 28(a), the cap amounts as agreed with the Stock Exchange.

Save as disclosed above, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

SHARE OPTION SCHEME

Share options are granted to the Directors, executives and employees under the Executive Share Option Scheme of the Company (the "Scheme") adopted on 26th June, 1998 and became unconditional on 23rd July, 1998. 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 19th September, 2002 | 131,250,000 shares (prior to share consolidation as described in Note 29 to the accompanying accounts), representing approximately 4.23% 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 | 10 years commencing from the date of grant of such options and ending on the date of expiry of the Scheme. |

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

SHARE OPTION SCHEME (Cont'd)

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 option at its date 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 option was exercised in Year 1;
- Year 3: up to 60% of shares so comprised, less the percentage of shares in respect of which the option was 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 option was exercised in Years 1, 2 and 3; and
- Year 5: all shares so comprised in respect of which the option to 10 was not previously exercised.
(inclusive)
7. The amount payable on acceptance of the option
- Nominal amount of \$1.00 upon acceptance of the option.
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 five business days immediately preceding the date of offer to grant the option; and
- (b) the nominal value thereof.
9. The remaining life of the Scheme
- The Scheme will expire on 23rd July, 2008.

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

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

SHARE OPTION SCHEME (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)(b) of Appendix 16 of the Listing Rules during the period:

| Directors | Number of shares comprising the options outstanding at the beginning of the period | Number of options lapsed | Number of shares comprising the options outstanding at the end of the period | Date granted | Subscription price per share |
|--|---|---------------------------------|---|--------------------------|-------------------------------------|
| | | | | | \$ |
| Hans-Joerg SEEBERGER | 33,000,000 | — | 33,000,000 | 09/01/2000 | 0.224 |
| Peter Ka Yue LEE | 2,500,000 | — | 2,500,000 | 09/01/2000 | 0.224 |
| Michael Richard PIOX | 2,500,000 | — | 2,500,000 | 17/01/2000 | 0.224 |
| Hartmut VAN DER STRAETEN | 2,500,000 | — | 2,500,000 | 12/01/2000 | 0.224 |
| Employees under continuous contracts (excluding Directors) | 92,250,000 | 1,500,000 | 90,750,000 | 06/01/2000 to 31/01/2000 | 0.224 |
| | <u>132,750,000</u> | <u>1,500,000</u> | <u>131,250,000</u> | | |

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

No options were granted and exercised during the period.

Save as disclosed above, at 31st May, 2002, neither the Directors or chief executive nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

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(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 \$1,593,000 (inclusive of disbursements) during the period (for the year ended 31st December, 2000: \$1,859,000) 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 a Director had a material interest, whether directly or indirectly, existed at the end of the period or at any time during the said period.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Hans-Joerg SEEBERGER, aged 59, is the founder of the Group, Chairman and Chief Executive of the Company. He is also the Chairman and Chief Executive of EganaGoldpfeil (the ultimate holding company of the Group, hereinafter collectively referred to as "EganaGoldpfeil Group") and has more than 21 years' experience in the timepiece and jewellery business in Asia and Europe. He is responsible for the Group's overall corporate policy and development strategy as well as for overseeing the Group's operations worldwide, particularly the financial and marketing aspects.

Peter Ka Yue LEE, aged 55, is responsible for the financial and general management of the Group's Hong Kong operations and is also a director of EganaGoldpfeil. Before joining the EganaGoldpfeil Group, he worked as an executive in marketing and corporate management in several international companies in the consumer and manufacturing industries. He joined the EganaGoldpfeil Group in 1978.

Michael Richard POIX, aged 50, joined the EganaGoldpfeil Group in October 1988 and is a director of EganaGoldpfeil. He previously worked with a large German mail order house, a large German department store organisation as a foreign trader in their trade department 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.

Shunji SAEKI, aged 52, has been with the EganaGoldpfeil Group for more than 24 years and is responsible for sourcing pearls from Japan and other Asian countries for sale by the Group to its European customers and brand products development. He graduated from Kassel University in Germany with a diploma in industrial design and has extensive experience in sourcing pearls.

Hartmut VAN DER STRAETEN, aged 61, has over 12 years' experience in the jewellery and timepiece industries. Prior to joining the EganaGoldpfeil Group in 1997, he was the chief executive of a leading timepiece and jewellery retail chain in Germany. He is well versed in the jewellery industry in Europe and oversees the business and corporate development of the Group in Germany and neighbouring countries.

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

Executive Directors (Cont'd)

Michael BOMMERS, aged 47, is responsible for overseeing the financial reporting functions and the development of the Group's activities in Europe. He is currently a member of the supervisory board of Egana Europe (Holdings) GmbH, a wholly-owned subsidiary of EganaGoldpfeil. He joined the EganaGoldpfeil Group as a managing director of Egana Europe (Holdings) GmbH in 1994 and was involved in the merging and restructuring of the European operations of the EganaGoldpfeil Group. Prior to joining the EganaGoldpfeil Group, he worked in the corporate finance division of West Merchant Bank in Germany and was involved in advising the EganaGoldpfeil Group on the acquisition of Egana Deutschland GmbH, a company engaged in the distribution of timepieces and jewellery prior to its corporate reorganisation.

Non-executive Directors

David Wai Kwong WONG, aged 44, has over 21 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. Mr. Wong has been a non-executive director of EganaGoldpfeil since 1992 and is also a non-executive director of eight other Hong Kong listed companies including EganaGoldpfeil.

Charles Cho Chiu SIN, OBE, aged 66, is a director and company secretary of Tian Teck Land Limited, a company listed on the Stock Exchange. He is also an independent non-executive director and company secretary of Associated International Hotels Limited. He is a solicitor and notary public and holds a Master of Arts degree from the University of Cambridge. Mr. Sin was the Chairman of the Kam Ngan Stock Exchange from 1985 to 1986 and the Stock Exchange from 1987 to 1988. He is a former Chairman of the Home Ownership Scheme Committee and the Management Committee of the Hong Kong Housing Authority. He is also a former member of the Urban Council and the Hong Kong Housing Authority.

Eduardo Tang Lung LAU, aged 45, has over 17 years' experience in footwear business, particularly in the US market and became an independent Non-executive Director of the Company in March 2000. Mr. Lau is also an independent non-executive director of another Hong Kong listed company.

Professor Zhengfu WANG, aged 50, joined the Group in 1997 as a consultant and is responsible for overseeing and advising on the Group's strategic and business development in the People's Republic of China. He became an independent Non-executive Director of the Company in September 2000. Prior to joining the Group, he was involved in the corporate restructuring of certain state-owned enterprises and advising Chinese-foreign joint ventures. Professor Wang holds a Bachelor degree in Economics and had further study in Europe. He is well conversant with international business and economics.

Biographical details of senior management of the Group are set out in Senior Management section on page 3.

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SUBSTANTIAL SHAREHOLDERS

At 31st May, 2002, the following entities (not being a Director or chief executive of the Company) had or deemed to have interest of 10% or more of the issued share capital of the Company which is required to be recorded under section 16(1) of the SDI Ordinance:

| Name | Number of issued shares | Percentage holding |
|---|--------------------------------|---------------------------|
| Glorious Concept Limited (<i>Note i</i>) | 671,216,000 | 21.64% |
| EganaGoldpfeil (<i>Note ii</i>) | 2,294,491,442 | 73.97% |
| Peninsula International Limited (<i>Note iii</i>) | 2,304,940,990 | 74.30% |
| Trustcorp Limited as trustee of the Captive Insurance Trust (<i>Note iv</i>) | 2,304,940,990 | 74.30% |

Notes:

- i. Glorious Concept Limited is a wholly-owned subsidiary of EganaGoldpfeil and these shares were registered in the name of its nominee.
- ii. The interest includes 1,623,275,442 and 671,216,000 shares held by EganaGoldpfeil and Glorious Concept Limited respectively.
- iii. 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.
- iv. Duplication of Peninsula International Limited's holding.

Save as disclosed above, at 31st May, 2002, the Company was not notified by any persons who had an interest of 10% or more of the issued share capital of the Company which is required to be recorded under section 16(1) of the SDI Ordinance.

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.

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 Appendix 14 of the Listing Rules throughout the period.

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AUDITORS

During the period, Messrs. Arthur Andersen & Co resigned as auditors of the Company and Messrs. PricewaterhouseCoopers were appointed by the Directors to fill the casual vacancy occasioned until the next Annual General Meeting.

The accounts for the period have been audited by Messrs. PricewaterhouseCoopers. A resolution for the appointment of Messrs. PricewaterhouseCoopers as the Company's auditors for the ensuing year is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board



Hans-Joerg SEEBERGER

Chairman and Chief Executive

Hong Kong, 19th September, 2002.