

## **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 Egana Jewellery & Pearls Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ended 31st May, 2004.

### **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 AND GEOGRAPHICAL ANALYSIS OF OPERATIONS**

The Company is an investment holding company. Its subsidiaries are principally engaged in the (i) design, manufacturing, distribution and trading of jewellery products, (ii) licensing or assignment of brandnames to third parties for the design, manufacturing and/or distribution of jewellery and consumer products other than timepieces and (iii) 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 48.

The Directors have declared an interim dividend of 5.50 cents (2003: 6.00 cents) per share, totaling approximately \$17,300,000 (2003: \$18,612,000), which was fully paid on 25th March, 2004.

The Directors recommend the payment of a final dividend of 4.00 cents (2003: 4.00 cents) per share to shareholders whose names appear on the register of members of the Company on 16th November, 2004, totaling approximately \$13,272,000 (2003: \$12,408,000). Together with the interim dividend, total dividends for the year ended 31st May, 2004 amounted to approximately \$30,572,000 (2003: \$31,020,000).

# REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## FINANCIAL REVIEW

Group revenue exceeded \$977.6 million, a remarkable increment of 36% from \$718.4 million in FY 02/03. This is due to our core market, Europe reflecting a 12% growth; a double of the revenue share from 14% (in FY 02/03) to 29% in Asia, and a modest 16% 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.

In exploring new markets in Asia, particularly Mainland China, the Group's gross margin for FY 03/04 was slightly diluted to 38% (41% in FY 02/03). However, with the increase in revenue (and market share), the overall gross profit contribution was increased by 24% to reach \$370 million.

Upon a gradual increase of in-house production in place of Bought-In-Finished goods order fulfillment for 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 stood at similar level to FY 02/03's, being at \$153.8 million. With increase in revenue (and better utilization of the capacity), the percentage to revenue moved from 21% to 15.7%. 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 are in line with the prior years, at 15.6%. 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 10% reached \$97.1 million, up 12% from last year. This translates into an operating cash inflow and results in cash and cash equivalents of \$199.8 million.

Our revenue and assets were denominated in Euro and Swiss Franc 64%, US\$ and HK\$ 35% and Others 1%. Payments and liabilities were in Euro and Swiss Franc 40%, US\$ and HK\$ 55% and Others 5%.

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 \$68.5 million, an 18% upsurge, with a net margin of 7% and return on equity of 13.4% (12.7% in FY 02/03).

## **REPORT OF THE DIRECTORS**

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### **FINANCIAL REVIEW** *(Cont'd)*

The shareholder fund was \$511.6 million, showing a continuous double digit growth (12%).

With the addition of the 1/3 interests in JOOP! GmbH for securing the JOOP! jewellery brand worldwide, the acquisition of a German distribution business and the additional investment (of \$13 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 \$1,103 million (\$831 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 \$1,200 million) - a valuable off balance sheet Group asset.

Working capital was \$461 million with current ratio at 2.2x (comparing to 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.

Given the tight credit control policy and ongoing inventory control measures, the debtors turnover was at a comfortable 92 days (well ahead of the industry norm of 120 days), and the inventory turnover was 121 days (25% improvements from FY 02/03's 162 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 pursuant to a sound financial model in place, viz-a-viz capital investment being financed by medium term borrowings and equity funds, with debts financing as working capital.

The leverage ratio (net borrowings as a proportion to shareholder funds) stood at a strong 0.3. The gearing ratio (interest bearing debts/shareholder funds) was at 0.67 well within the industry threshold of 1 time. 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 150% so as to secure our return on shareholder fund to exceed 18%.

## **REPORT OF THE DIRECTORS**

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### **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, 2004, the Company's share premium amounted to approximately \$39,295,000 (2003: \$31,227,000) while its retained profits amounted to approximately \$16,448,000 (2003: \$14,423,000).

### **DONATIONS**

Charitable and other donations made by the Group during the year amounted to approximately \$22,570 (2003: \$4,700).

### **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 the movements in share capital of the Company are set out in Note 28 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.

## **REPORT OF THE DIRECTORS**

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### **BANK BORROWINGS**

Particulars of bank borrowings at 31st May, 2004 are set out in Notes 24 and 25(a) to the accounts. There was no interest capitalised by the Group during the year.

### **SUBSIDIARIES AND AN ASSOCIATED COMPANY**

Particulars of the Company's subsidiaries and an associated company at 31st May, 2004 are set out in Notes 15 and 16 to the accounts respectively.

### **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  | As 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 | 13,125,000 shares, representing approximately 3.96% 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 and ending on the date of expiry of the Scheme. |

## REPORT OF THE DIRECTORS

(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 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 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 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 Scheme
- The Scheme will expire on 23rd July, 2008.

## REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### SHARE OPTION SCHEME (Cont'd)

On 1st September, 2001, amendments to Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing 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 Listing Rules. However, all options granted prior to the coming into effect of the said amendments will remain in full force and effect.

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 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 \$
<b>Directors</b>				
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
Hartmut VAN DER STRAETEN	250,000	250,000	12/01/2000	2.24
<b>Employees under continuous contracts (excluding Directors)</b>	9,075,000	9,075,000	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 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 Scheme was adopted, provided that up to 20%, 40%, 60% and 80% of the original number of shares comprising the options may be exercised in the 1st, 2nd, 3rd and 4th year from the date granted, respectively.

No options 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 corporation 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)

Shunji SAEKI

Hartmut VAN DER STRAETEN

Michael BOMMERS

### Non-executive Director

David Wai Kwong WONG

### Independent Non-executive Directors

Charles Cho Chiu SIN

Eduardo Tang Lung LAU

Professor Zhengfu WANG

In accordance with Article 99 of the Company's Articles of Association, Mr. Ho Yin CHIK shall hold office until the forthcoming annual general meeting of the Company, and being eligible, offer himself for re-election.

In accordance with Article 116 of the Company's Articles of Association, Mr. Michael BOMMERS, Professor Zhengfu WANG and Mr. Hartmut VAN DER STRAETEN, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. Mr. Hartmut VAN DER STRAETEN has notified the Company that he will not offer himself for re-election at the forthcoming annual general meeting.

## 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 December, 2004.

Mr. Peter Ka Yue LEE previously entered into service agreements 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.

## **REPORT OF THE DIRECTORS**

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### **DIRECTORS' SERVICE CONTRACTS** *(Cont'd)*

Mr. Shunji SAEKI entered into a service agreement with the Company and shall continue thereafter unless and until the agreement is terminated.

Mr. Hartmut VAN DER STRAETEN entered into a service agreement with the Company and has continued upon its terms unless and until the agreement is terminated.

Mr. Michael BOMMERS entered into a service agreement with the Company and shall continue thereafter unless and until the agreement is terminated.

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).

### **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 is also the Chairman and Chief Executive of EganaGoldpfeil (the ultimate holding company of the Group, hereinafter collectively referred to as the "EganaGoldpfeil Group") and has more than 23 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.

## REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

#### Executive Directors *(Cont'd)*

**Peter Ka Yue LEE**, aged 57, 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. Mr. Lee is also a director of The Hong Kong Watch Manufacturers Association Limited.

**Michael Richard POIX**, aged 52, 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 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 EganaGoldpfeil Group in 1985 and is a director of EganaGoldpfeil. He is also the Group Treasurer and responsible for the financial and treasury operations 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.

**Shunji SAEKI**, aged 54, has been with the EganaGoldpfeil Group for more than 26 years and is responsible for overall sales, marketing and brand control in Asia and the Pacific Region. 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 63, has over 14 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.

**Michael BOMMERS**, aged 49, is responsible for overseeing the financial reporting functions and the development of the Group's activities in Europe. He is currently the Managing Director of Egana Schmuck und Perlen GmbH and EganaGoldpfeil Europe (Holdings) GmbH, wholly-owned subsidiaries of EganaGoldpfeil. He joined the EganaGoldpfeil Group 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.

## 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 20 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 EganaGoldpfeil and Tonic Industries Holdings Limited. He is also a director of International Taxation Advisory Services Limited and an executive director of Incutech Investments Limited.

#### Independent Non-executive Directors

**Charles Cho Chiu SIN, OBE**, aged 68, is a non-executive director of Tian Teck Land Limited and 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 was a former Chairman of the Home Ownership Scheme Committee and the Management Committee of the Hong Kong Housing Authority. He was also a former member of the Urban Council and the Hong Kong Housing Authority.

**Eduardo Tang Lung LAU**, aged 47, has over 19 years' experience in the 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 52, 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 7.

## 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 CORPORATION

As 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 corporation (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	Total Interests	
							Underlying shares (share options)	(including underlying shares) as % of the issued share capital
<b>Number of shares of \$0.50</b>								
<b>each in the Company</b>								
Hans-Joerg SEEBERGER	—	—	—	230,494,099 <i>(Note i)</i>	230,494,099	72.60%	3,300,000 <i>(Note iii)</i>	73.64%
Peter Ka Yue LEE	73,651	—	1,114,838 <i>(Note ii)</i>	—	1,188,489	0.37%	250,000 <i>(Note iii)</i>	0.45%
Michael Richard POIX	373,398	—	—	—	373,398	0.12%	250,000 <i>(Note iii)</i>	0.20%
Ho Yin CHIK	2,160	—	—	—	2,160	0%	—	0%
Hartmut VAN DER STRAETEN	—	—	—	—	—	—	250,000 <i>(Note iii)</i>	0.08%

## 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 CORPORATION (Cont'd)

#### The Company (Cont'd)

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 EganaGoldpfeil and its nominee. By virtue of his interest in EganaGoldpfeil under to 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 the Company's Executive Share Option Scheme.

#### Associated Corporation

##### EganaGoldpfeil

	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
<b>Number of shares of \$1.00 each in EganaGoldpfeil</b>								
Hans-Joerg SEEBERGER	—	—	—	459,122,553 (Note i)	459,122,553	39.18%	12,000,000 (Note iii)	40.20%
Peter Ka Yue LEE	530,291	—	8,191,773 (Note ii)	—	8,722,064	0.74%	500,000 (Note iii)	0.79%
Michael Richard POIX	2,884,666	—	—	—	2,884,666	0.25%	500,000 (Note iii)	0.29%
Ho Yin CHIK	18,464	—	—	—	18,464	0%	144,800 (Note iv)	0.01%
Shunji SAEKI	53,000	8,640	—	—	61,640	0.01%	179,000 (Note v)	0.02%
Hartmut VAN DER STRAETEN	—	—	—	—	—	—	250,000 (Note iii)	0.02%

## **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 CORPORATION** *(Cont'd)*

#### **Associated Corporation** *(Cont'd)*

#### **EganaGoldpfeil** *(Cont'd)*

*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.
- iii. The options, exercisable at \$2.11 per share, were granted pursuant to EganaGoldpfeil's Executive Share Option Scheme.
- iv. The options, exercisable at \$3.45 per share, were granted pursuant to EganaGoldpfeil's Executive Share Option Scheme.
- v. 99,000 and 80,000 options, exercisable at \$1.28 and \$2.11 per share respectively, were granted pursuant to EganaGoldpfeil's Executive Share Option Scheme.

Certain Directors held 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 corporation 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.

### **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, 2004, the following persons, other than the Directors and 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:

	<b>Corporate Interests</b>	<b>Total Interests Total as % of issued Interests share capital</b>	
<b>Number of shares of \$0.50 each in the Company</b>			
Glorious Concept Limited ( <i>Note i</i> )	67,121,600	67,121,600	21.14%
Eco-Haru Mfr. Holdings Limited ( <i>Note i</i> )	67,121,600	67,121,600	21.14%
EganaGoldpfeil ( <i>Note ii</i> )	229,449,144	229,449,144	72.27%
Merrill Lynch & Co Inc	16,148,482	16,148,482	5.09%

*Notes:*

- i. Glorious Concept Limited is a wholly-owned subsidiary of Eco-Haru Mfr. Holdings Limited, which in return is wholly-owned by EganaGoldpfeil.
- ii. The interest includes 162,327,544 and 67,121,600 shares held by EganaGoldpfeil and Glorious Concept Limited respectively.

All the interests stated above represent long positions. At 31st May, 2004, 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, 2004, 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.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers in aggregate accounted for approximately 30% of the total sales of the Group and the largest customer accounted for approximately 9% of the total sales of the Group.

During the year, the five largest suppliers in aggregate accounted for approximately 51% of the total purchases of the Group and the largest supplier accounted for approximately 14% 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.

## **REPORT OF THE DIRECTORS**

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### **EMPLOYEES**

As at 31st May, 2004, the Group had approximately 2,800 employees who were remunerated based on their experience, their qualifications and the Group's performance and market conditions.

### **CONNECTED TRANSACTIONS**

Details of the connected transactions for the year are set out in Note 35 to the accounts. The independent Non-executive Directors of the Company have reviewed the connected transactions set out in Note 35(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 in the interest of the Company as a whole; and
- (iv) within the amount calculated under the terms of the relevant agreements and, in respect of the transactions set out in Note 35(a), the cap amounts as agreed with the Stock Exchange.

Save as disclosed in Note 35 to the accounts, there were no other transactions which need 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 Appendix 14 of the Listing Rules throughout the year.

### **AUDIT COMMITTEE**

The Audit Committee, comprising not less than three Non-executive Directors and a majority of whom is independent, 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.

## **REPORT OF THE DIRECTORS**

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### **PUBLIC FLOAT**

On the basis of information that is publicly available to the Company and 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 for the financial year ended 31st May, 2004.

### **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 EVENT**

Details of significant subsequent event is set out in Note 36 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