



## **JEWELLERY & PEARLS LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

### **ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31ST MAY, 2003**

#### **Highlights**

Turnover exceeded:	HK\$718 million
Profit from operations reached:	HK\$77 million
Distributable Earnings amounted to:	HK\$58 million
Proposed Final Cash Dividend:	4¢ per share

#### **RESULTS**

The board of directors (the “Directors”) of Egana Jewellery & Pearls Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ended 31st May, 2003 together with the comparative figures for the corresponding period from 1st January, 2001 to 31st May, 2002 which are summarised as follows:

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<b>For the year ended 31st May, 2003 HK\$'000</b>	<b>For the period from 1st January, 2001 to 31st May, 2002 HK\$'000</b>
TURNOVER	718,382	855,738
COST OF SALES	<u>(420,431)</u>	<u>(476,590)</u>
GROSS PROFIT	297,951	379,148
OTHER REVENUES <i>(note 2)</i>	33,362	34,342
DISTRIBUTION COSTS	(101,816)	(162,809)
ADMINISTRATIVE EXPENSES	<u>(152,571)</u>	<u>(182,488)</u>
OPERATING PROFIT	76,926	68,193
FINANCE COSTS	<u>(15,745)</u>	<u>(22,972)</u>
PROFIT BEFORE TAXATION	61,181	45,221
TAXATION <i>(note 3)</i>	<u>(3,241)</u>	<u>(3,444)</u>
PROFIT AFTER TAXATION	57,940	41,777
MINORITY INTERESTS	<u>(1)</u>	<u>509</u>
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	<u>57,939</u>	<u>42,286</u>
DIVIDENDS <i>(note 4)</i>	<u>31,020</u>	<u>4,653</u>
EARNINGS PER SHARE <i>(note 5)</i>		
Basic	<u>18.68 cents</u>	<u>13.63 cents</u>
Diluted	<u>N/A</u>	<u>N/A</u>

*Notes:*

### 1. Basis of preparation and accounting policies

In the current year, the Group has adopted, for the first time, the following revised and new Statements of Standard Accounting Practices ("SSAP"):

SSAP 1 (revised)	: Presentation of financial statements
SSAP 11 (revised)	: Foreign currency translation
SSAP 15 (revised)	: Cash flow statements
SSAP 34 (revised)	: Employee benefits

The adoption of the above SSAPs does not have material impact on the accounts of the Group except that certain presentation changes have been made to the comparative figures upon the adoption of SSAP 1 (revised) and SSAP 15 (revised).

## 2. Other Revenues

	For the year ended 31st May, 2003 <i>HK\$'000</i>	For the period from 1st January, 2001 to 31st May, 2002 <i>HK\$'000</i>
Rental income	102	241
Interest income	14,480	11,913
Management fees	4	6
Gain on disposal of non-trading securities	15,500	—
Redemption premium received on maturity of an equity-linked note	1,060	—
Gain on disposal of fixed assets	—	91
Gain on disposal of intangible assets	—	2,696
Exchange gain, net	—	1,164
Consideration received in connection with the sharing of certain information of customer portfolio with a third party	—	10,234
Negative goodwill on acquisition of a subsidiary	—	144
Dividend income from non-trading securities	—	2,625
Others	<u>2,216</u>	<u>5,228</u>
	<u>33,362</u>	<u>34,342</u>

## 3. Taxation

	For the year ended 31st May, 2003 <i>HK\$'000</i>	For the period from 1st January, 2001 to 31st May, 2002 <i>HK\$'000</i>
The Company and its subsidiaries —		
Current taxation		
Hong Kong profits tax		
— Provision for the year/period	2,500	2,500
Overseas taxation		
— Provision for the year/period	974	954
— Over-provision in prior years	<u>(233)</u>	<u>(10)</u>
	3,241	3,444
Associated company —		
Current taxation		
Hong Kong profits tax		
— Provision for the year/period	—	—
Overseas taxation		
— Provision for the year/period	<u>—</u>	<u>—</u>
	<u>3,241</u>	<u>3,444</u>

Hong Kong profits tax has been provided at the rate of 17.5% (17-month period ended 31st May, 2002: 16%) on the estimated assessable profit arising in or derived from Hong Kong. Taxation on overseas profits has been calculated on the estimated assessable profit for the year/period provided by subsidiaries with overseas operations at the rates of taxation prevailing in the countries in which the subsidiaries operated.

#### 4. Dividends

	<b>For the year ended 31st May, 2003 HK\$'000</b>	<b>For the period from 1st January, 2001 to 31st May, 2002 HK\$'000</b>
Interim, paid, HK6 cents (2002: HK0.15 cent) per ordinary share	18,612	4,653
Final, proposed, HK4 cents (2002: nil) per ordinary share	<u>12,408</u>	<u>—</u>
	<u>31,020</u>	<u>4,653</u>

During the year, an interim dividend of approximately HK\$18,612,000 (2002: HK\$4,653,000) was declared and paid on 29th April, 2003.

At a meeting held on 29th September, 2003, the directors proposed a final dividend of HK4 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in the accounts, but will be reflected as an appropriation of retained profits for the year ending 31st May, 2004.

#### 5. Earnings per share

Basic earnings per share

The basic earnings per share was calculated based on the consolidated profit attributable to shareholders for the year ended 31st May, 2003 of approximately HK\$57,939,000 (17-month period ended 31st May, 2002: HK\$42,286,000) and the weighted average number of ordinary shares of approximately 310,206,000 (17-month period ended 31st May, 2002: 310,204,000) in issue during the year.

Diluted earnings per share

During the year ended 31st May, 2003 and 17-month period ended 31st May, 2002, the Company's share options exercise price was above the average fair value of one ordinary share, and thus there were no dilutive potential ordinary shares.

## DIVIDENDS

The Directors recommend the payment of a final dividend of HK4 cents per share to shareholders whose names appear on the register of members of the Company on 18th November, 2003. Together with the interim dividend of HK6 cents per share paid on 29th April, 2003, total dividends for the year ended 31st May, 2003 amount to approximately HK\$31,020,000.

## **BUSINESS REVIEW AND PROSPECT**

We are pleased that the Group continues to record revenue growth of 19% over the annualized 31st May, 2002 amount and a 60% improvement in operating margin to 10.7% in the midst of the global economic downturn during the year ended 31st May, 2003. This is, inter alia, attributable to our unique business model and our commitment to customer services superiority and innovativeness.

Being an international jewellery and pearls distributor, we have strategically set up our own operating subsidiaries in 7 jurisdictions (Germany, Austria, Thailand, Hong Kong, China, Japan and the US) to coordinate and interact with the appointed agents and importers in 48 countries for a worldwide coverage. This enables the Group to have a more direct and timely access to the market, and to receive customer feedbacks in a more responsive manner.

With 78% of revenue coming from Europe and seeing a 15% growth in revenue (HK\$563 million for May 2003 as compared to the annualized HK\$490 million for May 2002) in Europe, we have participated in the European Technology and Logistic Center (ETLC) established near Frankfurt, Germany, by our parent EganaGoldpfeil (Holdings) Limited. ETLC aims at enhancing the customer relationship management (CRM) and supply chain management (SCM) functions of the Group, for the benefit of our customers and supplier partners. ETLC has commenced operations since June 2003, and is expected to enhance the Group's operating efficiency and increase recurring revenue from existing and potential customers due to better CRM activities.

Practising a vertically integrated manufacturing approach with advanced production facilities in Germany, Hong Kong, China and Thailand, SCM is the key to improve our lead time and response to the changing economy.

The success of the transplantation of the Speidel factory from Germany to China, in terms of production proficiency, procurement efficiency, delivery fulfillment, cooperation with the Chinese partner and the quality of the work force adds confidence that China possesses the necessary ingredients for establishing advanced production facilities with international standard. We have established an additional jewellery factory in China, which started operation in August 2002 and reached 75% production capacity due to growth in orders within one year.

As a pioneer in the production know how and technology which are crucial to sustain "innovativeness", we have acquired Guthmann & Wittenauer (G & W), an established German jewellery production plant in Pforzheim (a prominent German jewellery centre) in April 2003, and are in the process of integrating our existing facilities under Abel & Zimmermann into G & W for enlargement of the production coverage and expertise. The G & W acquisition not only provides more extensive and/or innovative branded jewellery collections, but also solicits an enlarged customer label clientele for the Group. Apart from an increase in customer label products orders, the acquisition has made positive contribution in terms of streamlining the Group's branded product procurement and administrative efficiency.

In June 2003, we, in conjunction with our parent, acquired one-third interest in JOOP! GmbH, which allows us to effectively secure the JOOP! worldwide jewellery license on an exclusive and perpetual basis. JOOP! has high recognition in Germany, respectively Europe, with strong growth potential in Asia.

During the year under review, we have increased our focus in marketing and distribution in Asia, which contributed 14% of the Group's revenue (HK\$100 million) as compared to 6% of the annualized 2002 amount (HK\$34 million). In addition to JOOP! and MEXX, Pierre Cardin jewel reflects encouraging development potential in Asia, in particular China and India, as well as in the travel gift items perspective.

In the third quarter 2003, we have entered into a licensing and business cooperation arrangement with a renowned jewellery group in Shanghai for the launch of Pierre Cardin jewel as fashionable and contemporary collections (which are believed to be the best received categories in China) in north provinces. This marks our extension to the China market following the accession of China to the World Trade Organization.

Esprit Jewel, being well received in Germany, is gaining its market share in Taiwan and China markets - thanks to the Group's Globalization approach of "Think Global, Act Local" that we have been able to bring in the Global Trend as set by the market in Germany, respectively Europe, and comprehend the culture in Taiwan and China due to our presence in Asia for 25 years, for launching our communications program and product range to satisfy the consumers.

We are confident that our 5-year plan of enlarging the revenue split from Asia to 28% is achievable and is beneficial to the Group and our stakeholders.

In the US, we continue to pursue our focus differentiation strategy to target for the high-end market through our own brands Abel & Zimmermann, Kazto platinum and Jacquelin Designs. Our Thai production facilities, Keimothai, and diamond supply associate in Israel are fully geared to service the US market for which we are planning to introduce new concept collections in conjunction with major and famous brands to launch new series at an appropriate time. Currently, USA represents less than 10% of Group's revenue, and is set to increase its share to 22% in 5-year time.

At long last, Goldpfeil Jewel was introduced in the Basel Fair 2003 with encouraging response. With its inherent nature as a truly global brand with an enduring history, we believe the collections will be widely welcomed by the US audience, and should satisfy discreet customers in Japan, Middle East and Europe.

We will continue to commit ourselves to sustain a leading position as a respected multi-brand jewellery powerhouse to share the industry growth, through a proper allocation of our internal resources and a balanced mix of strategic alliance.

## FINANCIAL REVIEW

Turnover for the year ended 31st May, 2003 exceeded HK\$718 million, representing a 19% increment over the annualized 31st May, 2002 amount (HK\$604 million). This is due to our continuous sales growth in Europe which recorded a 15% increase over the 2002's, and our increase in revenue split in Asia (which is at 14% as compared to 6% in 2002) as a result of our commitment to exploit the potential of our branded products business in Asia. In line with our focus differentiation strategy targeting the US prestigious and upscale jewellery market, we have been rationalizing our US clientele with concentration on those which are expected to make positive contribution on a long term basis.

During the year under review, the world faced an economic downturn, which was further hit by the SARS outbreak and Iraq war. Given our commitment to customer services superiority and the positive reception of the product range, the Group managed to maintain its gross margin above 40%, after offering 3% discount to our established clientele which has been showing long term loyalty to the Group. Through our participation in ETLC, the Group secured savings in distribution cost by 11% for the year ended 31st May, 2003. This is also contributed by the share of the expenditure on the global marketing and promotion program by our newly appointed distributors and agents. Now we are covering 48 countries (from 36 in 2002) and target to keep the (net) distribution cost within 15% going forward.

With a 19% increase in turnover, the Group reflected only an 8% increment in inventory. Inventory turnover was 162 days, an improvement of 15% over 2002's of 191 days. Debtors turnover was 70 days, which is ahead of the industry average of 120 days. These reflected the soundness of the tight financial policy, the well reception of our products by the customers and our partners' (including distributors, agents and importers) endeavours to turn our products more expeditiously into cash and recurring orders.

The current ratio was 2.2x, well ahead of the industry yardstick of 1x. This allows the Group to plan its financial resources in a lower interest cost burden manner and to secure its working capital to cope with the continuous business expansion of the Group.

The Group recorded a healthy gearing ratio (measured as total interest bearing debt to tangible net worth) at 0.42, well below the market average of 1.1. This reflects the Group's sound financial position to leverage its borrowings in an optimal manner to prepare for further business growth and capital investment.

Administrative expenses were maintained at 21% of sales, which is still in line with the prior years' thresholds notwithstanding that we have in 2002/03 added on to our four production facilities two production plants (one in China and one in Germany) - thanks to our sound internal control and proper monitoring of the integration plans.

As a result, operating profit margin reached 10.7%, a 60% improvement from the 2002's 8%. This translates into an operating fund, and results in a cash and cash equivalents amount of over HK\$90 million. The net profit margin almost doubled, reaching 8%, which translates into a return on equity of 13%.

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

The Group has no significant capital commitment as at 31st May, 2003.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from 14th November, 2003 to 18th November, 2003, both days inclusive, during which period no transfer of shares shall be effected. In order to qualify for the proposed final dividend and attend the Company's annual general meeting, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrars, Secretaries Limited, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration by 4:30 p.m. on 13th November, 2003.

## **EMPLOYEES**

As at 31st May, 2003, the Group had approximately 2,860 employees. They were remunerated based on their experience, their qualifications and the Group's performance and market conditions.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its securities (whether on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or otherwise) during the year ended 31st May, 2003.

## **CODE OF BEST PRACTICE**

Except that the non-executive directors of the Company 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the year.

## **PUBLICATION OF RESULTS ON THE STOCK EXCHANGE'S WEBSITE**

All the information required by paragraphs 45(1) to 45(3) inclusive of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website in due course.

On behalf of the Board  
**Hans-Joerg SEEBERGER**  
*Chairman and Chief Executive*

Hong Kong, 29th September, 2003



## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of Egana Jewellery & Pearls Limited (the “Company”) will be held at Ching Room, 4/F., Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Kowloon, Hong Kong on 20th November, 2003 at 11:00 a.m. for the following purposes:—

1. To receive and consider the Financial Statements and the Reports of the Directors and Auditors for the year ended 31st May, 2003.
2. To declare a final dividend.
3. To re-elect Directors and to authorise the Directors to fix their remuneration.
4. To appoint Auditors for the ensuing year and to authorise the Directors to fix their remuneration.
5. To consider and, if thought fit, pass with or without amendments, the following resolutions as Ordinary Resolutions:—

(A) **“THAT:—**

- (a) subject to paragraph (c) of this Resolution and without prejudice to Resolution 5(C) set out in the Notice of this Meeting, the exercise by the Directors during the Relevant Period (as defined in paragraph (d) of this Resolution) of all the powers of the Company to issue, allot and deal in shares of HK\$0.50 each in the capital of the Company (the “Shares”) and to issue, allot or grant securities convertible into the Shares or options, warrants or similar rights to subscribe for any Shares in the Company or such convertible securities and to make or grant offers, agreements and options which would or might require the exercise of such powers, subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to:—
  - (i) a Rights Issue (as defined in paragraph (d) of this Resolution);
  - (ii) any scrip dividend scheme or similar arrangements implemented in accordance with the Articles of Association of the Company as amended from time to time; or

- (iii) an issue of the Shares under the share option scheme of the Company or any similar arrangements for the time being adopted by the Company for the grant or issue to employees or directors of the Company and/or any of its subsidiaries of the Shares or right to acquire the Shares;

shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this Resolution and the said approval shall be limited accordingly;

- (d) for the purposes of this Resolution:—

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:—

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable law of the Cayman Islands as amended from time to time to be held; and
- (iii) the revocation or variation of this Resolution by an ordinary resolution of the shareholders of the Company in general meeting; and

“Rights Issue” means an offer of shares open for a period fixed by the Directors to holders of the Shares on the register on a fixed record date in proportion to their then holdings of such Shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory).”

- (B) **“THAT:—**

- (a) subject to paragraph (b) of this Resolution, the exercise by the Directors during the Relevant Period (as defined in Resolution 5(A)(d) set out in the Notice of this Meeting) of all the powers of the Company to repurchase the Shares on The Stock Exchange of Hong Kong Limited or on any other exchange on which the Shares may be listed and which is recognised by the Securities and Futures Commission and The Stock Exchange of Hong Kong Limited (the “Recognised Stock Exchange”), subject to and in accordance with all applicable laws, and in accordance with the provisions of, and in the manner specified in, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited or the rules of any other Recognised Stock Exchange, be and is hereby generally and unconditionally approved; and
- (b) the aggregate nominal amount of the Shares to be repurchased or agreed conditionally or unconditionally to be repurchased by the Company pursuant

to the approval in paragraph (a) of this Resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this Resolution and the said approval shall be limited accordingly.”

(C) **“THAT** subject to the passing of Resolutions 5(A) and 5(B) set out in the Notice of this Meeting, the aggregate nominal amount of share capital of the Company that may be allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to and in accordance with the approval given in Resolution 5(A) set out in the Notice of this Meeting be and is hereby increased and extended by the addition of the aggregate nominal amount of the Shares which may be repurchased by the Company pursuant to and in accordance with the approval given in Resolution 5(B) set out in the Notice of this Meeting provided that such amount shall not exceed the aggregate nominal amount of the Shares repurchased pursuant to the said Resolution 5(B) and the said approval shall be limited accordingly.”

6. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as a Special Resolution:—

**“THAT** Article 2 of the Articles of Association of the Company be and is hereby amended by deleting the words “section 2 of the Securities and Futures (Clearing Houses) Ordinance (Cap. 420 of the Laws of Hong Kong)” in the definition of “recognised clearing house” and substituting therefor the words “the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as may be amended from time to time or a clearing house or authorised share depository recognised by the laws of the jurisdiction in which the shares of the Company are listed or quoted on a stock exchange in such jurisdiction”.”

By Order of the Board  
**Lillian WONG**  
*Company Secretary*

Hong Kong, 29th September, 2003

*Notes:*

1. Any member entitled to attend and vote may appoint a proxy to attend the meeting instead of him and to vote on a poll. A proxy need not be a member of the Company.
2. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of authority shall be deposited at the principal place of business of the Company at Block C6, 12th Floor, Hong Kong Industrial Centre, 489-491 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong not less than 48 hours before the time for holding the meeting (or adjourned meeting, as the case may be).
3. The register of members of the Company will be closed from 14th November, 2003 to 18th November, 2003, both days inclusive, for the purpose of establishing entitlements of the shareholders of the Company to qualify for the proposed final dividend and attend the Company’s annual general meeting. During such period, no transfer of the Shares can be registered.
4. A circular containing further details regarding Resolutions 5 and 6 above will be sent to the shareholders of the Company as soon as practicable.

Please also refer to the published version of this announcement in *The Standard*.