

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, 2003.

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 strategic 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 6.00 cents (2002: 0.15 cent) per share, totaling approximately \$18,612,000 (2002: \$4,653,000), which was fully paid on 29th April, 2003.

The Directors recommend the payment of a final dividend of 4.00 cents (2002: Nil) per share to shareholders whose names appear on the register of members of the Company on 18th November, 2003, totaling approximately \$12,408,000 (2002: Nil). Together with the interim dividend, total dividends for the year ended 31st May, 2003 amounted to approximately \$31,020,000 (2002: \$4,653,000).

FINANCIAL REVIEW

Turnover for the year ended 31st May, 2003 amounted to \$718 million, representing a 19% increment over the annualised 31st May, 2002 amount (\$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.

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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 European Technology and Logistic Center (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 1.0x. 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 processing 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 cash inflow, and results in cash and cash equivalents of over \$90 million. The net profit margin almost doubled, reaching 8%, which translates into a return on equity of 13%.

Our revenue and assets were denominated in Euro 75%, US\$ and HK\$22%, Swiss Franc 1% and others 2%. Payments and liabilities were in Euro 30%, US\$ and HK\$65%, Swiss Franc 1% and others 4%.

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

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

Since 2000, the Group had entered into strategic alliance with a building material supplier group (which has access to and channels for importing product to China at a low import cost) and an investment fund (which had access to and channels for distributing products in Taiwan) with a view to expanding our network in Greater China in a cost-effective manner.

The recently concluded Closer Economic Partnership Arrangement (CEPA) between Hong Kong and Mainland China will allow Hong Kong companies to import products from Hong Kong to China in a more direct and a no import tariff manner. This is expected to greatly benefit our Group (which has Hong Kong based operating subsidiaries).

As such, the Group had divested certain interests in the building material supplier group with the proceeds applied to establish more marketing and promotion programs for the China market to which the Group is ready to import products in a price competitive manner. Currently, the Group holds 12.5% interests in this building material supplier group with a view to jointly exploring distribution and retailing opportunities in Beijing and Shanghai.

The Group had no significant capital commitment as at 31st May, 2003. 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 seen satisfactory growth broadly in line with the plan and the management is confident that the Group is at the pace of our 5-year plan to grow the revenue by 150% so as to secure our return on shareholder fund to exceed 18%.

The management remains confident and committed to put the plan into fruition for a more promising future with continuous growth in shareholder value.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in Note 28 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, 2003, the Company's share premium amounted to approximately \$31,227,000 (2002: \$31,227,000) while its retained profits amounted to approximately \$14,423,000 (2002: accumulated losses of \$14,822,000).

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately \$4,700 (2002: \$16,000).

FIXED ASSETS

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

SHARE CAPITAL

On 4th September, 2002, an ordinary resolution was passed at an extraordinary general meeting of the Company pursuant to which every 10 shares of \$0.05 each in the issued and unissued share capital of the Company were consolidated into one consolidated share of \$0.50 each (the "Share Consolidation"). The Share Consolidation became effective on 5th September, 2002.

Details of the movements in share capital of the Company are set out in Note 27 to the accounts.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Memorandum and Articles of Association of the Company and the Companies Law of the Cayman Islands.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

BANK BORROWINGS

Particulars of bank borrowings at 31st May, 2003 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, 2003 are set out in Notes 15 and 16 to the accounts respectively.

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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 29th September, 2003 13,125,000 shares (after the Share Consolidation), 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 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.
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 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)

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

SHARE OPTION SCHEME (Cont'd)

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.

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.

REPORT OF THE DIRECTORS

(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) of Appendix 16 of the Listing Rules during the year:

	Number of shares comprising the options outstanding at the beginning of the year (Adjusted for the Share Consolidation)	Number of shares comprising the options outstanding at the end of the year	Date granted	Subscription price per share (Adjusted for the Share Consolidation) \$
Directors				
Hans-Joerg SEEBERGER	3,300,000	3,300,000	09/01/2000	2.24
Peter Ka Yue LEE	250,000	250,000	09/01/2000	2.24
Michael Richard POIX	250,000	250,000	17/01/2000	2.24
Hartmut VAN DER STRAETEN	250,000	250,000	12/01/2000	2.24
Employees under continuous contracts (excluding Directors)	9,075,000	9,075,000	07/01/2000 to 31/01/2000	2.24
	13,125,000	13,125,000		

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 ("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

Shunji SAEKI

Hartmut VAN DER STRAETEN

Michael BOMMERS

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. Shunji SAEKI, Mr. Charles Cho Chiu SIN and Mr. Eduardo Tang Lung LAU shall retire by rotation from office and, being eligible, offer themselves for re-election. All other Directors continue in office.

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 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 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.

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

DIRECTORS' SERVICE CONTRACTS *(Cont'd)*

Mr. Michael BOMMERS 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 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

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 \$1,072,000 (inclusive of disbursements) during the year (2002: \$1,593,000) 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 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 60, 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 22 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 56, 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 51, 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.

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)*

Shunji SAEKI, aged 53, has been with the EganaGoldpfeil Group for more than 25 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 62, has over 13 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 48, 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 EganaGoldpfeil Europe (Holdings) GmbH, a wholly-owned subsidiary of EganaGoldpfeil. He joined the EganaGoldpfeil Group as a managing director of EganaGoldpfeil 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 45, has over 22 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 seven other Hong Kong listed companies.

Charles Cho Chiu SIN, OBE, aged 67, 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 46, has over 18 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.

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

Non-executive Directors (Cont'd)

Professor Zhengfu WANG, aged 51, 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.

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, 2003, 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
Number of shares of \$0.50 each in the Company								
Hans-Joerg SEEBERGER	—	—	—	230,494,099 (Note i)	230,494,099	74.30%	3,300,000 (Note iii)	75.37%
Peter Ka Yue LEE	73,651	—	1,114,838 (Note ii)	—	1,188,489	0.38%	250,000 (Note iii)	0.46%
Michael Richard POIX	373,398	—	—	—	373,398	0.12%	250,000 (Note iii)	0.20%
Hartmut VAN DER STRAETEN	—	—	—	—	—	—	250,000 (Note iii)	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 pursuant 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
Number of shares of \$1.00 each in EganaGoldpfeil								
Hans-Joerg SEEBERGER	—	—	—	449,878,475 (Note i)	449,878,475	39.74%	12,000,000 (Note i)	40.80%
Peter Ka Yue LEE	530,291	—	8,026,838 (Note ii)	—	8,557,129	0.76%	520,000 (Note ii)	0.80%
Michael Richard POIX	2,826,586	—	—	—	2,826,586	0.25%	538,000 (Note iii)	0.30%
Shunji SAEKI	53,000	8,640	—	—	61,640	0.01%	179,000 (Note iv)	0.02%
Hartmut VAN DER STRAETEN	—	—	—	—	—	—	250,000 (Note v)	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. The options, exercisable at \$2.11 per share, were granted pursuant to EganaGoldpfeil's Executive Share Option Scheme.
- ii. These shares were beneficially owned by Joshua Limited, a company which was wholly and beneficially owned by Mr. Peter Ka Yue LEE. 20,000 and 500,000 options, exercisable at \$1.28 and \$2.11 per share respectively, were granted pursuant to EganaGoldpfeil's Executive Share Option Scheme.
- iii. 38,000 and 500,000 options, exercisable at \$1.28 and \$2.11 per share respectively, were granted pursuant to EganaGoldpfeil's Executive Share Option Scheme.
- iv. 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.
- v. The options, exercisable at \$2.11 per share, 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, 2003.

Save as disclosed above, as at 31st May, 2003, 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 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, 2003, 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:

	Corporate Interests	Total Interests	Total as % of issued share capital
Number of shares of \$0.50 each in the Company			
Glorious Concept Limited (<i>Note i</i>)	67,121,600	67,121,600	21.64%
Eco-Haru Mfr. Holdings Limited (<i>Note i</i>)	67,121,600	67,121,600	21.64%
EganaGoldpfeil (<i>Note ii</i>)	229,449,144	229,449,144	73.97%

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, 2003, 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, 2003, 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 24% of the total sales of the Group and the largest customer accounted for approximately 5% of the total sales of the Group.

During the year, the five largest suppliers in aggregate accounted for approximately 49% of the total purchases of the Group and the largest supplier accounted for approximately 12% of the total purchases of the Group.

At 31st May, 2003, 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, 2003, the Group had approximately 2,860 employees whom 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 34 to the accounts. The independent Non-executive Directors of the Company have reviewed the connected transactions set out in Note 34(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 34(a), the cap amounts as agreed with the Stock Exchange.

Save as disclosed in Note 34 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 two independent Non-executive Directors, mainly focuses on the review and supervision of the Company's financial reporting process and internal controls.

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, 2003 and up to the date of this report.

REPORT OF THE DIRECTORS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

SUBSEQUENT EVENT

Details of significant subsequent event is set out in Note 35 to the accounts.

AUDITORS

Arthur Andersen & Co acted as auditors of the Company up to and including the year ended 31st December, 2001. Arthur Andersen & Co resigned on 26th July, 2002 and the Directors appointed PricewaterhouseCoopers to fill the casual vacancy. PricewaterhouseCoopers audited the accounts for the year ended 31st May, 2003.

On behalf of the Board



Hans-Joerg SEEBERGER

Chairman and Chief Executive

Hong Kong, 29th September, 2003