

CORPORATE INFORMATION

PRINCIPAL ACTIVITY

Design, manufacturing, distribution and trading of jewellery products; and licensing or assignment of brandnames to third parties for the design, manufacturing and/or distribution of jewellery and consumer products other than timepieces

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HONG KONG SHARE REGISTRARS & TRANSFER OFFICE

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LISTING

The Stock Exchange of Hong Kong Limited Stock Code: 926

The board of directors (the "Directors") of Egana Jewellery & Pearls Limited (the "Company") is pleased to announce the unaudited consolidated condensed results of the Company and its subsidiaries (the "Group") for the six months ended 30th November, 2003 together with the comparative figures for the six months ended 30th November, 2002 which are summarised as under. These results have been reviewed by the Audit Committee of the Company.

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Six months ended	
		30th November, 2003 (Unaudited) HK\$'000	30th November, 2002 (Unaudited) HK\$'000
Turnover	2	389,644	369,300
Cost of sales		(207,148)	(217,057)
Gross profit		182,496	152,243
Other revenues		9,768	16,333
Distribution costs		(66,074)	(47,195)
Administrative expenses		(74,632)	(72,691)
Operating profit		51,558	48,690
Finance costs		(8,651)	(6,951)
Profit before taxation	2, 3	42,907	41,739
Taxation	4	(2,484)	(2,649)
Profit after taxation but before minority interests		40,423	39,090
Minority interests		(1)	(46)
Profit attributable to shareholders		40,422	39,044
Dividends	5	17,061	18,612
Earnings per share	6		
Basic		13.03 cents	12.59 cents
Diluted		N/A	N/A

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months ended	
	30th November, 2003 (unaudited) <i>HK\$'000</i>	30th November, 2002 (unaudited) <i>HK\$'000</i>
Opening balance — Total equity	<u>456,599</u>	<u>405,878</u>
Surplus/(deficit) on revaluation of investments in non-trading securities	103	(2,885)
Exchange differences on translation of the financial statements of foreign subsidiaries	<u>1,455</u>	<u>6,288</u>
Net gains and losses not recognised in the profit and loss account	1,558	3,403
Net profit for the period	40,422	39,044
Dividends	<u>(12,408)</u>	<u>—</u>
Closing balance — Total equity	<u><u>486,171</u></u>	<u><u>448,325</u></u>

CONSOLIDATED BALANCE SHEET

	Note	As at 30th November, 2003 (Unaudited) HK\$'000	As at 31st May, 2003 (Audited) HK\$'000
Non-current assets			
Fixed assets	7	38,583	40,467
Intangible assets	8	117,530	37,288
Interest in an associated company		(60)	(59)
Investments in non-trading securities	9	80,336	63,309
		<u>236,389</u>	<u>141,005</u>
Current assets			
Inventories		201,977	193,488
Accounts receivable, net	10	92,196	207,908
Royalty deposit		17,159	20,098
Deposits, prepayments and other receivables		34,666	70,669
Due from fellow subsidiaries		134,055	62,845
Due from a related company		1,064	662
Short-term investments		54,003	42,957
Cash and cash equivalents		153,392	91,479
		<u>688,512</u>	<u>690,106</u>
Current liabilities			
Accounts payable	11	(51,157)	(50,429)
Other payable and accruals		(97,165)	(65,617)
Bills payable		(52,379)	(36,948)
Short-term bank borrowings	12	(131,479)	(131,817)
Long-term bank borrowings — current portion	12	(21,007)	(3,860)
Other long-term loans — current portion		(762)	(333)
Obligations under finance lease — current portion		(95)	(134)
Due to fellow subsidiaries		(14,286)	(18,411)
Due to Directors		(110)	(50)
Taxation payable		(7,830)	(5,360)
Final dividend payable		(12,408)	—
		<u>(388,678)</u>	<u>(312,959)</u>
Net current assets		<u>299,834</u>	<u>377,147</u>
Total assets less current liabilities		<u>536,223</u>	<u>518,152</u>
Non-current liabilities			
Long-term bank borrowings	12	(28,146)	(39,258)
Other long-term liabilities		(19,485)	(19,875)
Deferred taxation		(2,392)	(2,392)
		<u>(50,023)</u>	<u>(61,525)</u>
Minority interests		(29)	(28)
Net assets		<u>486,171</u>	<u>456,599</u>
Shareholders' equity			
Share capital	13	155,103	155,103
Reserves	14	314,007	289,088
Proposed interim/final dividend		17,061	12,408
		<u>486,171</u>	<u>456,599</u>

CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	30th November, 2003 (Unaudited) <i>HK\$'000</i>	30th November, 2002 (Unaudited) <i>HK\$'000</i>
Cash generated by operations	217,562	59,594
Interest paid	(8,137)	(5,897)
Tax paid	(1,437)	(1,403)
Tax refund	1,442	—
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Net cash from operating activities	209,430	52,294
Net cash used in investing activities	(151,509)	(44,960)
Net cash from financing activities	3,987	9,309
	<hr/>	<hr/>
Net increase in cash and cash equivalents	61,908	16,643
Cash and cash equivalents at 1st June, 2003/1st June, 2002	91,479	138,451
Effect of foreign exchange rate changes	5	350
	<hr/>	<hr/>
Cash and cash equivalents at 30th November, 2003/30th November, 2002	153,392	155,444
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Analysis of cash and cash equivalents:		
Cash and bank balances	31,732	69,119
Promissory notes	121,660	86,325
	<hr/>	<hr/>
	153,392	155,444
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Notes:

1. Basis of preparation and principal accounting policies

The condensed interim accounts have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

The condensed interim accounts have been prepared under the historical cost convention, as modified for the revaluation of leasehold land and buildings and investments in non-trading securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st May, 2003, except as described below.

In the current interim period, the Group has adopted SSAP 12 (Revised) "Income taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognized in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of this revised accounting policy had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment is required.

Notes: (continued)

2. Segmental information

(a) Primary reporting format — business segments

The Group's businesses are managed according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit which is subject to risks and returns that are different from those of other business segments.

The Group is organised on a worldwide basis into two main business segments:

- Jewellery - design, manufacturing, distribution and trading of jewellery products.
- Investments - investments in strategic investments and other trading and non-trading securities. Strategic investments include investments in a private closed-end fund and an unlisted company which could bring medium or long-term synergetic benefits to the Group's businesses such as strategic alliance and partnership with various distributors in Greater China for furtherance of its business penetration in Greater China.

	Six months ended 30th November, 2003		
	Jewellery products	Investments	Group
	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Turnover	389,644	—	389,644
Segment results	51,558	—	51,558
Finance costs			(8,651)
Profit before taxation			42,907
Taxation			(2,484)
Profit after taxation			40,423
Minority interests			(1)
Profit attributable to shareholders			40,422
Segment assets	844,523	80,438	924,961
Interest in an associated company	(60)	—	(60)
Total assets	844,463	80,438	924,901
Segment liabilities	(438,701)	—	(438,701)
Total liabilities	(438,701)	—	(438,701)
Capital expenditure	86,137	—	86,137
Depreciation	6,456	—	6,456
Amortisation	4,543	—	4,543
Bad debt expense	4,058	—	4,058
Write back of provision for inventory obsolescence	1,134	—	1,134

Notes: (continued)

2. Segmental Information (continued)

(a) Primary reporting format — business segments (continued)

	Six months ended 30th November, 2002		
	Jewellery products	Investments	Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	369,300	—	369,300
Segment results	48,690	—	48,690
Finance costs			(6,951)
Profit before taxation			41,739
Taxation			(2,649)
Profit after taxation			39,090
Minority interests			(46)
Profit attributable to shareholders			39,044
Capital expenditure	8,265	—	8,265
Depreciation	4,725	—	4,725
Amortisation	1,077	—	1,077
Bad debt expense	2,414	—	2,414

	As at 31st May, 2003		
	Jewellery products	Investments	Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment assets	767,760	63,410	831,170
Interest in an associated company	(59)	—	(59)
Total assets	767,701	63,410	831,111
Segment liabilities	(374,484)	—	(374,484)
Total liabilities	(374,484)	—	(374,484)

Notes: (continued)

2. Segmental information (continued)

(b) Secondary reporting format — geographical segments

The Group's operations are mainly located in Europe, Asia Pacific and America.

In determining the Group's geographical segments, turnover and results attributed to the segments were based on the destination of delivery of merchandise. Segment assets and capital expenditure were based on the geographical location of the assets.

	Six months ended 30th November, 2003			As at 30th November, 2003
	Turnover <i>HK\$'000</i>	Segment results <i>HK\$'000</i>	Capital expenditure <i>HK\$'000</i>	Total assets <i>HK\$'000</i>
Europe	324,120	51,473	82,247	429,103
America	40,705	(2,015)	922	63,042
Asia Pacific	24,819	2,100	2,968	432,816
	<u>389,644</u>	<u>51,558</u>	<u>86,137</u>	924,961
Interest in an associated company				(60)
Total assets				<u>924,901</u>

	Six months ended 30th November, 2002			As at 31st May, 2003
	Turnover <i>HK\$'000</i>	Segment results <i>HK\$'000</i>	Capital expenditure <i>HK\$'000</i>	Total assets <i>HK\$'000</i>
Europe	323,670	47,442	451	337,411
America	36,000	(133)	1,541	47,961
Asia Pacific	9,630	1,381	6,273	445,798
	<u>369,300</u>	<u>48,690</u>	<u>8,265</u>	831,170
Interest in an associated company				(59)
Total assets				<u>831,111</u>

Notes: (continued)

3. Profit before taxation

The Group's profit before taxation is arrived at after crediting and charging the following:

	Six months ended	
	30th November, 2003 <i>HK\$'000</i>	30th November, 2002 <i>HK\$'000</i>
Crediting:		
Interest Income	4,937	6,602
Exchange gain, net	—	8,054
Charging:		
Depreciation of fixed assets	6,456	4,725
Amortisation of intangible assets	4,543	1,077
Interest expenses	6,722	5,481
Exchange loss, net	2,057	—

4. Taxation

Taxation comprised:

	Six months ended	
	30th November, 2003 <i>HK\$'000</i>	30th November, 2002 <i>HK\$'000</i>
Company and subsidiaries —		
Hong Kong profits tax		
— Provision for current period	2,500	2,500
Overseas income tax		
— Provision for current period	32	149
— Overprovision in prior periods	(48)	—
	<u>2,484</u>	<u>2,649</u>
Associated company		
Hong Kong profits tax		
— Provision for current period	—	—
Overseas income tax		
— Provision for current period	—	—
	<u>2,484</u>	<u>2,649</u>

Hong Kong profits tax was provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit arising in or derived from Hong Kong. Overseas income tax was provided by subsidiaries with overseas operations on their estimated assessable profits for the period at the tax rates applicable in the countries in which the subsidiaries operated.

Notes: (continued)

5. Interim dividend

The Directors have resolved to declare an interim dividend of HK5.5 cents per share (2002: HK6 cents per share) payable on 25th March, 2004 to shareholders whose names appear on the register of members of the Company on 17th March, 2004.

6. Earnings per share

Basic earnings per share

Basic earnings per share was calculated based on the consolidated profit attributable to shareholders for the period of approximately HK\$40,422,000 (2002: HK\$39,044,000) and the weighted average number of ordinary shares of approximately 310,206,000 (2002: 310,206,000) in issue during the period.

Diluted earnings per share

During the periods ended 30th November, 2003 and 30th November, 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.

7. Fixed assets

	Property, plant and equipment <i>HK\$'000</i>
Carrying value as at 1st June, 2003	40,467
Additions	4,534
Exchange adjustments and disposals	38
Charge for the period	(6,456)
	<hr/>
Carrying value as at 30th November, 2003	38,583
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8. Intangible assets

	<i>HK\$'000</i>
Carrying value as at 1st June, 2003	37,288
Additions	81,603
Exchange adjustments and disposals	3,182
Charge for the period	(4,543)
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Carrying value as at 30th November, 2003	117,530
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Notes: (continued)

9. Investments in non-trading securities

At 30th November, 2003, the investments in non-trading securities were stated at fair values which were determined by the Directors or according to quoted market prices and the revaluation surplus of approximately HK\$103,000 (2002: Deficit of HK\$2,885,000) was recorded in the revaluation reserve. In the opinion of the Directors, there were no indication of impairment in the carrying values of the investments.

10. Accounts receivable aging analysis

The Group allows an average credit period of 30-90 days to its trade customers. Aging analysis of accounts receivable after provision for bad and doubtful debts is as follows:

	As at 30th November, 2003	As at 31st May, 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
In current month	56,574	194,760
Between 1 to 2 months	6,543	3,256
Between 2 to 3 months	2,580	1,723
Between 3 to 4 months	4,526	1,798
Over 4 months	21,973	6,371
	<u>92,196</u>	<u>207,908</u>

11. Accounts payable aging analysis

Aging analysis of accounts payable is as follows:

	As at 30th November, 2003	As at 31st May, 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
In current month	32,908	42,828
Between 1 to 2 months	6,385	2,372
Between 2 to 3 months	5,353	2,274
Between 3 to 4 months	3,602	681
Over 4 months	2,909	2,274
	<u>51,157</u>	<u>50,429</u>

Notes: (continued)

12. Bank borrowings

(a) Short-term bank borrowings comprised:

	As at 30th November, 2003	As at 31st May, 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans and overdrafts	113,799	119,899
Trust receipts and import loans	17,680	11,918
	<u>131,479</u>	<u>131,817</u>

(b) Long-term bank borrowings:

	As at 30th November, 2003	As at 31st May, 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Repayable within a period of		
- not exceeding 1 year		
Secured	16,310	—
Unsecured	4,697	3,860
- more than 1 year, but not exceeding 2 years		
Secured	—	—
Unsecured	4,722	4,674
- more than 2 years, but not exceeding 5 years		
Secured	15,567	9,462
Unsecured	7,857	4,292
- after 5 years		
Secured	—	20,830
Unsecured	—	—
	<u>49,153</u>	<u>43,118</u>
Less: Amounts repayable within 1 year included under current liabilities	<u>(21,007)</u>	<u>(3,860)</u>
	<u><u>28,146</u></u>	<u><u>39,258</u></u>

Notes: (continued)

13. Share capital

	Number of shares	Nominal value of each share HK\$	Nominal value of shares HK\$'000
Balance as at 1st June, 2003	310,205,869	0.50	155,103
Balance as at 30th November, 2003	310,205,869	0.50	155,103

14. Reserves

	Share premium account HK\$'000	Exchange translation reserve HK\$'000	Retained profits HK\$'000	Goodwill HK\$'000	Revaluation reserve HK\$'000	Other reserve HK\$'000	Total HK\$'000
At 1st June, 2003	31,227	7,731	176,096	68,814	17,559	69	301,496
Profit for the period ended 30th November, 2003	—	—	40,422	—	—	—	40,422
2003 final dividend	—	—	(12,408)	—	—	—	(12,408)
Interim dividend declared	—	—	(17,061)	—	—	—	(17,061)
Surplus on revaluation of non-trading securities	—	—	—	—	103	—	103
Exchange differences arising on translation of overseas subsidiaries' financial statements	—	1,455	—	—	—	—	1,455
At 30th November, 2003	31,227	9,186	187,049	68,814	17,662	69	314,007

Notes: (continued)

15. Related party transactions

- a. During the period, the Group had the following material transactions with EganaGoldpfeil (Holdings) Limited and its subsidiaries excluding the Group ("EganaGoldpfeil Group") which also constituted connected transactions as defined in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited:

	Six months ended	
	30th November, 2003 (Unaudited) HK\$'000	30th November, 2002 (Unaudited) HK\$'000
Sales of goods/services	9,551	3,280
Purchases of goods	2,131	2,446
Interest income	943	1,681
Allocation of operating costs	49,621	39,203
Management fee expenses	4,642	6,421
Royalty fee expenses	8,605	8,650

Notes:

- i. Sales and purchases of goods were determined with reference to published prices and market conditions.
 - ii. Interest was charged at the commercial rate.
 - iii. Cost allocation, management fee expenses and royalty fee expenses were charged according to the terms of the relevant agreements.
- b. During the period, the Group paid royalties of approximately HK\$2,699,000 (2002: Nil) to a related company, JOOP! GmbH, which were charged according to the terms of the relevant agreement.
- c. The Group paid HK\$616,925 (2002: HK\$516,975) to International Taxation Advisory Services Limited, of which Mr. David Wai Kwong WONG, a non-executive Director of the Company, is a director, for corporate advisory services rendered. The Directors consider that the fees were paid according to prices and conditions similar to those offered by other external consultants of the Group.

16. Contingent liabilities

Contingent liabilities in respect of bills discounted with recourse at 30th November, 2003 were approximately HK\$3,784,000 (year ended 31st May, 2003: HK\$14,821,000).

17. Review of interim financial statements

The Company's Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the Group's unaudited interim results for the six months ended 30th November, 2003.

BUSINESS REVIEW AND PROSPECTS

Looking forward, with our main market in Europe improving (as shown by the success of our in-house exhibition in Germany in January 2004) and our brand pyramid approach that offers established names like Esprit, JOOP!, MEXX, Dugena, Katarina Witt by Dugena, Pierre Cardin, and Abel & Zimmermann, we expect encouraging growth in our European business.

Asia has now fully recovered from SARS and aftereffects of Iraq war. The Group feels confident that with the promising response of the recent launch of Esprit Jewel in China and having a portfolio of brands readily acceptable in Mainland, China market will start contributing significantly to Group bottom line. This belief is further strengthened by the fact that the Group has had manufacturing unit in Hong Kong since inception and therefore is able to take full advantage of Closer Economic Partnership Arrangement (CEPA).

The Group has also signed a cooperation agreement with a reputable Shanghai based jewellery group for Pierre Cardin Jewel and the merchandise has received very encouraging response from the Mainland China market. In addition, the Group is taking active steps to increase market penetration in Taiwan.

During the period, the Group increased its investment in strategic partnerships by HK\$17 million to help realize the Asian business plans geared to deliver Asia turnover contribution to be at 28% of Group's total revenue at the end of the current 5-year program.

On the US side, the Group continues to build market network in spite of the prevailing intense competition. However, with the focus differentiation approach targeting high-end market and our Thai manufacturing units supporting both gold and platinum high-end production, the results are on target to provide significant contributions in terms of both turnover and bottom line growth.

With the generally positive outlook and Group's traditional focus on delivering continued double-digit growth to our Shareholders, the overall future prospects have considerably improved.

Group's brand portfolio is considered to be adequate for the time being to support the planned growth targets and no major changes are anticipated. However, the Group may look to enhance individual brands by co-branding them with local brands as the need and opportunity arises. Independent valuation shows that the fair market value of the Group's brand portfolio should exceed HK\$1.2 billion, representing a valuable off-balance sheet Group asset.

BUSINESS REVIEW AND PROSPECTS *(continued)*

Manufacturing facilities are also considered sufficient to meet the anticipated increases in turnover and aside from minor refurbishment and re-tooling no significant changes are anticipated. Thanks to a vertically integrated manufacturing support, there has been continuous product development, unique design and fashion innovation, generating high levels of customer satisfaction and setting industry trends.

In February 2004, Merrill Lynch, an international investment bank subscribed to US\$10 million 5-year convertible bonds of the Group, the proceeds of which will be applied to the working capital for the Asian business. Merrill Lynch and the Group each have an option to require the Group to issue further convertible bonds with maturity in February 2009 to the extent of US\$35 million, proceeds from which are intended the expansion of business in Asia and the US.

The Group continues to practice its core values of "Compassion, Integrity and Fairness" to strive for being a leader and one of the most respected multi-brand jewellery group focusing on customer service superiority, for the ultimate benefit of our stakeholders.

MANAGEMENT DISCUSSIONS AND ANALYSIS

Group turnover for the 6 months to November 2003 stands at HK\$390 million (6% increase); giving a profit attributable to shareholders of HK\$40 million that represents an average annualized 17% return on shareholders' funds for the period.

The turnover contribution from Europe was 83% (87% November 2002), America 10% (10% November 2002) and Asia Pacific 7% (3% November 2002). Continued growth in Asian revenue is anticipated going forward.

While improving overall turnover, Group managed to leverage its manufacturing-distributor-brand manager business model to deliver a remarkable 5% improvement in Gross Profit that now stands at 47%.

Administration expenses were managed to 19% of the turnover level, an improvement over 12 months to May 2003 figure of 21%.

During the 6 months to November 2003, the Group acquired 100% interest in a jewellery distribution business from a third-party company. In addition, the European Technology and Logistic Center in Germany started operation in June 2003 with the set up costs expensed during the period. These two events resulted in an increase in Distribution costs to 17% of the turnover; from 12 months to May 2003 figure of 14%. However, these costs increases have helped the Group to improve margins as illustrated above. European Technology and Logistic Center in Germany is showing positive signs of streamlining delivery logistics and achieving faster order fulfillment. The nominal cost increase would therefore form a lower portion of group turnover as more group brands are introduced in the newly acquired distribution network.

MANAGEMENT DISCUSSIONS AND ANALYSIS *(continued)*

Profit attributable to shareholders now stands at 10% of the turnover, an improvement from 12 months to May 2003 figure of 8%, indicating that the Group has been able to deliver an overall improvement for the benefit of our shareholders.

The Shareholder's Equity stands at HK\$486 million, representing a growth of 15.4% when compared to November 2002. This growth rates illustrates Group's continued focus on delivering double-digit growth to our shareholders. In the 12 months to May 2003, the Group has effected a dividend payout ratio to the extent of 50%.

Inventory turnover has shown a minor increase to 175 days from 162 days (May 2003) due to accumulation of inventory resulting from two specific reasons. The first reason was the sudden pick up in demand from Autumn 2003 onwards in Europe resulting in larger than planned raw material and work-in-progress investment. The second reason relates to stocking up for the first in-house fair held in our new European Headquarters and Exhibition Center in Offenbach, Germany in January 2004, an event that was not only a success but very encouraging for the Group as an indication of how 2004 business would look.

However, the level of 175 days is itself well below industry norm of 210 days and with the new logistic and technology center now in operation in Germany inventory turnover days are likely to witness a downward trend. (as of January 2004, the Group was at 158 days).

Average debtor days were kept within 70 days, similar to May 2003 and well within industry norm of 120 days. This is attributable to our ongoing close attention and regular review of credit terms. This credit control is deemed essential by the Group in an economic environment that would have otherwise necessitated deterioration in terms to not only increase turnover as was achieved but just to maintain it at previous levels.

Interest cover was at a healthy level, indicating that the Group can ride out minor variations in working capital requirements even if the prospects were lower from the current encouraging levels.

Leverage ratio (net borrowings as a proportion of consolidated tangible net worth) improved to 0.13 from May 2003 level of 0.25, while Gearing Ratio (interest bearing debt/consolidated tangible net worth) stood at 0.50 well within industry terms of 1 times.

MANAGEMENT DISCUSSIONS AND ANALYSIS *(continued)*

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 adequately contained.

Generally, the confirmed orders in hand covering 6 months worth of shipments are at a higher level than last year.

The Group had no significant capital commitments as at 30th November, 2003 and there are no material contingent liabilities or off-balance sheet obligations other than trade bills discounted in the ordinary course of business as already fully reflected in the accounts.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 15th March, 2004 to 17th March, 2004, both days inclusive, during which period no transfer of shares of the Company will be recorded.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATION

As at 30th November, 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 Securities and Futures Ordinance (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	Underlying shares (share options)	Total Interests (including underlying shares) as % of the issued share capital
Number of shares of HK\$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%
Ho Yin CHIK	2,160	—	—	—	2,160	0%	—	0%
Hartmut VAN DER STRAETEN	—	—	—	—	—	—	250,000 (Note iii)	0.08%

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 (Holdings) Limited ("EganaGoldpfeil") and its nominee. By virtue of his interest in EganaGoldpfeil under 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 HK\$2.24 per share, were granted pursuant to the Company's Executive Share Option Scheme.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATION *(continued)*

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 HK\$1.00 each in EganaGoldpfeil								
Hans-Joerg SEEBERGER	—	—	—	449,878,475 <i>(Note i)</i>	449,878,475	39.54%	12,000,000 <i>(Note i)</i>	40.60%
Peter Ka Yue LEE	530,291	—	8,026,838 <i>(Note ii)</i>	—	8,557,129	0.75%	520,000 <i>(Note ii)</i>	0.80%
Michael Richard POIX	2,826,586	—	—	—	2,826,586	0.25%	538,000 <i>(Note iii)</i>	0.30%
Ho Yin CHIK	18,093	—	—	—	18,093	0%	144,800 <i>(Note iv)</i>	0.01%
Shunji SAEKI	53,000	8,640	—	—	61,640	0.01%	179,000 <i>(Note v)</i>	0.02%
Hartmut VAN DER STRAETEN	—	—	—	—	—	—	250,000 <i>(Note vi)</i>	0.02%

Notes:

- i. These shares were registered in the name of Peninsula International Limited and its nominee which held the same as nominee for the Captive Insurance Trust, a discretionary trust whose prospective beneficiaries included Mr. Hans-Joerg SEEBERGER and his family. The options, exercisable at HK\$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 HK\$1.28 and HK\$2.11 per share respectively, were granted pursuant to EganaGoldpfeil's Executive Share Option Scheme.
- iii. 38,000 and 500,000 options, exercisable at HK\$1.28 and HK\$2.11 per share respectively, were granted pursuant to EganaGoldpfeil's Executive Share Option Scheme.
- iv. The options, exercisable at HK\$3.45 per share, were granted pursuant to EganaGoldpfeil's Executive Share Option Scheme.
- v. 99,000 and 80,000 options, exercisable at HK\$1.28 and HK\$2.11 per share respectively, were granted pursuant to EganaGoldpfeil's Executive Share Option Scheme.
- vi. The options, exercisable at HK\$2.11 per share, were granted pursuant to EganaGoldpfeil's Executive Share Option Scheme.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATION *(continued)*

Certain Directors held certain nominee shares in subsidiaries in trust for the Company or its subsidiaries as at 30th November, 2003.

Save as disclosed above, as at 30th November, 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 of Hong Kong Limited (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.

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

As at 30th November, 2003, the following persons, other than the Directors or chief executive of the Company, held an interest in the shares or underlying shares of the Company as recorded in the register maintained by the Company under section 336 of the SFO:

	Corporate Interests	Total Interests	Total Interests as % of issued share capital
Number of shares of HK\$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. As at 30th November, 2003, no short positions were recorded in the register required to be kept under section 336 of the SFO.

Save as disclosed above, as at 30th November, 2003, the Company had not been notified by any other person (other than the Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register maintained by the Company under section 336 of the SFO.

SHARE OPTION SCHEME

Share options are granted to the Directors, executives and employees under the Executive Share Option Scheme of the Company adopted on 26th June, 1998 and became unconditional on 23rd July, 1998 (the "Scheme").

The following shows the particulars of the share options of the Company granted to the Directors, executives and employees of the Group that are required to be disclosed pursuant to Rule 17.07 of Chapter 17 and sub-paragraph 13(1) of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the period:

Directors	Number of shares comprising the options outstanding at the beginning of the period	Number of shares comprising the options outstanding at the end of the period	Date granted	Subscription price per share HK\$
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 PIXX	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 can 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 period.

Save as disclosed above, no right to subscribe for the securities of the Company or its associated corporation within the meaning of the SFO, has been granted by the Company to, nor have any such rights been exercised by, any person during the period.

EMPLOYEES

As at 30th November, 2003, the Group had approximately 3,085 employees. They were remunerated based on their experience, their qualifications, the Group's performance and market conditions.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its securities (whether on the Stock Exchange or otherwise) during the period ended 30th November, 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 Listing Rules throughout the period.

APPRECIATION

On behalf of the Directors, I would like to extend our gratitude and sincere appreciation to our colleagues for their hard work and dedication and the Company's shareholders for their support.

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

Hong Kong, 26th February, 2004