INTRODUCTION

The Company is an investment holding company, with a stated strategy of focusing its management and financial resources on its core business of watch trading and retailing and looking for good investment opportunities to strengthen the Group's profit in the context of recurring income, income base and magnitude of income.

FINANCIAL REVIEW

For the year ended 31st March, 2001, the turnover of the Group was approximately HK$146 million, largely at the same level with the previous year as a whole. The profit attributable to shareholders amounting to approximately HK$6.7 million for the year under review, compared to a net loss of HK$6.3 million for the previous year. The Company's shareholders' funds increased by 5.5% to HK$134 million (2000: HK$127 million).

SEGMENTAL INFORMATION

Detailed segmental information in respect of the Group's turnover and contribution to profit (loss) before taxation is shown in note 3 to the financial statements.

LIQUIDITY AND FINANCIAL RESOURCES

During the year under review, the Group continues to maintain a solid financial structure and generally finances its operation from internal financial resources.

The Group's total shareholders' funds have increased to HK$134 million as at the balance sheet date of 2001 compared with HK$127 million as at the balance sheet date of 2000 mainly due to the rise in retained earnings.

As of 31st March, 2001 the Group enjoyed a net current asset position of approximately HK$70 million (2000: a net current asset of HK$60 million) which includes short-term bank deposits, bank balances and cash of approximately HK$69 million (2000: HK$72 million).

The liquidity of the Group as evidenced by the current ratio (current asset/current liabilities) was 1.61 times, which improved from the 1.48 times applicable in the previous year.

Due to healthy recurring stream of cash inflow generated from watch retailing business, the Group has maintained a good liquidity position throughout the year under review.

CAPITAL STRUCTURE

Except the convertible notes of Swiss Francs ("SFr.")11,800,000 at par, which are due in 2010, the Group is free from any bank borrowing. Interest charged on the notes is 7/8% per annum and interest expenses for the year ended 31st March, 2001 was HK$377,000 (2000: HK$375,000). There is also an option granted to the holders of the notes to cause the Company to redeem in United States dollars ("US$") at a fixed exchange rate of SFr. 1.00=US$0.67933 any note on 23rd February, 2008 at a redemption price of 117 3/8% of its principal amount together with interest accrued up to the date of redemption and amortization of premium on redemption charged for the year ended 31st March, 2001 was HK$972,000 (2000: HK$972,000).

RISK OF FOREIGN EXCHANGE FLUCTUATION

Apart from the Swiss operation, the Group's assets employed and operating activities are mainly denominated in Hong Kong dollars, United States dollars and Reminbi. Given the prevailing peg system between Hong Kong dollars and United States dollars and the road ahead for the Reminbi to become an international currency though are bright, is long and winding. Accordingly, the Group has no significant exposure to foreign exchange fluctuation. Nevertheless, the Board would closely observe the China's economic reform and development as well as Hong Kong fiscal policies and implement any effective programs to minimize any foreign exchange exposure.

CONTINGENT LIABILITIES

As at 31st March, 2001, the Company has given corporate guarantees of HK$40,000,000 (2000: HK$40,000,000) to bankers to secure general banking facilities granted to the Group. Bank facilities utilized at 31st March, 2001 was HK$nil (2000: HK$nil).

PLEDGE OF ASSETS

At the balance sheet date, general banking facilities granted to the Group of HK$40,000,000 (2000: HK$40,000,000) were secured by certain properties as follows:

	2001 **HK$'000**	2000 HK$'000
Carrying value of pledged assets		
Investment properties	**15,600**	17,100
Leasehold properties	**2,280**	2,370
	17,880	19,470

OPERATIONAL REVIEW

Watch Trading and Retailing

The aggregate turnover from the sales of completed watches excluding the Swiss office during the year under review amounted to HK$135 million, representing an increase of 16% compared with HK$116 million for the previous year. The reasons for the increases are mainly due to fivefold:

Firstly, the effect of the refurbishing programmes launched for the main shops in Shenyang and Shanghai in the first half year. It is in line with the Company's policy to provide a comfortable environment for shopping and a warm feeling of elegance and harmony to our customers of the retail distribution network.

Secondly, the decentralization of the various sales and marketing programmes that launched to each local market and customers' sector. The management information provided by our point of sales system offer a strong support, other than internal control functions, to these marketing plan and sales campaign which in turn can react to the market and customers' preference promptly.

Thirdly, the proven result retail distribution network over the PRC. It is the Group's strategy to seize any prime locations available of higher flow of passers-by and give more resources to efficient and effective outlets in different regions.

Fourthly, the success of various joint co-operation schemes with our various Brands during the year under review as a result of our long-term and solid business relationships.

Fifthly, the combination of management expertise from Hong Kong and local executives brings synergy to the performance of the business.

The aforesaid reasons contribute the competitive edges of the Company which after adopting the effective pricing and costing tactics, improve our overall profit margin during the year under review.

The Board has set the Company's mission is to be a proven result distribution network over the PRC. Therefore the Group targets to seize any prime locations available and give more resources to efficient and effective outlets in different regions. In line with such mission, one of the shops in Shenyang is expanded, renovated and removed to a nearby location with higher flow of passers-by and one more shop is opened in the prime location at Nanjing West Road in Shanghai in the first half financial year. And a new outlet in Harbin is established in the second half financial year.

Consistent with the Board's policy, the Company places great emphasis on establishing long-term and solid business relationship with various brands. The Board is pleased to see that the Company has opened 2 luxurious yet elegant boutiques namely Omega boutique and Vacheron Constantin boutique at Oriental Plaza and Sun Dong An Plaza respectively. Various enriching joint co-operations with brands are being actively discussed.

Looking into the future repair and maintenance business, the Board is of the view that the development and expansion of such market will benefit the Company in various folds as follows:

Firstly, along with the increasing demand for the high quality repair and maintenance service, the Company foresees the generation of revenue from the business grows in a steady pace.

Secondly, the delivery of high quality repair and maintenance services has not only attained good revenue results but at the same time enhances customers' loyalty to our retail distribution network.

Thirdly, establishment of joint co-operative service centers provides opportunities for the Company to solidify and develop our business relationships with various brand i.e. our business partners.

Apart from the repair and maintenance center located in each outlet, there are 2 authorized service centers for the prestigious brands such as Cartier, Vacheron Constantin and etc. during the last 2 financial years. The Group is committed to keep improving its service quality to customers, in particular the after-sales services so as to meet the great potential demand for high quality watch repair services in the PRC. The Company continues to target and capture any further golden opportunities to establish similar repair centers in other major cities in the PRC, which is one of the medium term business objectives.

Securities Investment

Due to the overall decline in securities market, which reflect the slowdown of the global economy, market value of the portfolio recorded a minor decreased from HK$32 million as at 31st March, 2000 to HK$29 million as at 31st March, 2001 after we disposed of part of our securities amounted to approximately HK$1.3 million. A net unrealized loss on revaluation of HK$1.8 million was recorded as at 31st March, 2001. Interest and dividend income generated from the portfolio accounted for HK$162,000 during the year under review.

Properties Investment

Gross rental income generated from investment properties increased by 56% to HK$3.3 million for the year ended 31st March, 2001. The increase is in line with the Board's policy to lease out the unoccupied area so as to maximize the return to the Group. In order to minimize the exposure of property downturn and build up long-term business relationship with tenants, it is the Board's policy to lease out the investment properties for medium term agreements.

Swiss Operation

The Board continues to keep the reduced scale of its Swiss operation during the year under review. The total turnover for the year ended 31st March, 2001 was HK$6.2 million (2000: HK$5.9 million). The operating loss for the year ended 31st March, 2001 amounted to approximately HK$1.3 million (2000: HK$1.4 million). During the year, the Group continues its financial support to the Swiss watch brands. JUVENIA S.A. is free of any bank debts and the Board is of the view that JUVENIA S.A. will not be a financial burden to the Group. It is one of the Group's intentions to sell the Swiss building upon the boom of Swiss property market.

Employee

The Group now has around 332 employees, about 93% of which are working in the PRC, mainly for the watch retailing business. The Group has, in accordance with applicable laws, established pension funds in the PRC. Total staff costs, including Directors' emoluments, amounted to HK$20.2 million (2000: HK$22.7 million). The Group reviews remuneration packages from time to time and normally annually. Besides salary payments, other staff benefits, include contributions to an employee provident fund, medical insurance and a discretionary bonus scheme. The Group also finances continuing education of staff in recognized associations.

The Board regards its existing human resources as an invaluable asset for the Group's future development, especially in the PRC watch retail market. It is the Group's human resources policy to provide equal opportunity and high motivation to all its employees.