

BUSINESS REVIEW & PROSPECTS

- The Group will continue to pursue its vision of being a respected, leading multi-brand powerhouse in the fashion accessory industry for the betterment of the lifestyle of the community. To achieve this, the Group will ensure timely provision of quality products and services, an effective extension of value adding activities, and being a good corporate citizen for the benefit of our stakeholders in a socially responsible manner.
- Sales revenue for the period was HK\$1,001 million, 52% from timepieces, 26% from jewellery and 22% from leather business. Due to the continuous depreciation of Euro for the period to the extent of 11%, the Group sales figure denominated in Hong Kong dollar decreased by 7%. However, excluding the translation effect of the weak Euro, the Group sales revenue has in real terms enjoyed a 4% growth even in the midst of the global recession.
- In November 2000, the Group acquired Junghans Uhren GmbH ("Junghans"). This is the first period that the results of Junghans are incorporated in the Group's interim results. The acquisition was in line with the Group's strategy in business expansion by enriching the brandname portfolio; widening distribution network in Europe; strengthening the clock business; and bringing in high technology quality timepieces. Junghans, founded in 1861, is a well-established timepiece manufacturer and distributor with high awareness in Europe, and prominent for its technological innovations in the field of movements including radio-control (known as "atomic" in the USA), solar and transponder technology. The Junghans Systems "Smart Card" combines contactless smart card technology with a wristwatch that opens doors, contains tickets, is an ID card, and pays for bus or rail fare, and other limitless potential for entertainment and leisure activities. This Junghans Systems have been widely used in a town in Germany. In addition, Junghans is involved in the application of Octopus technology to timepiece which has been introduced and widely used by passengers of public transportation in Hong Kong. Junghans represents "Time is Money, Effectiveness is Life"
- The Group has successfully combined the strengths of Junghans and Carrera (a world renowned upscale sports brand of the Company) and introduced the Carrera atomic watch series together with a unique range of Carrera time engineering watches (which involved special case material and design) at the JCK Show in Las Vegas, USA in June 2001 with positive reception. Furthermore Carrera watches have been launched and become a leading watch collection in India.
- With encouraging response from customers for branded products, the Group has been putting more resources for the fashion and upscale branded products, rather than bought-in-finished goods, as the former are more resilient to economic recession, and contribute a better margin to the Group.

- The Group has been continuously taking steps to enhance the awareness of Goldpfeil, which is a well known brand of luxury leather products, by inter alia giving seven top craftsmen in Europe to create one-of-a-kind exceptional watches. These limited editions have been presented with overwhelming response at the 2001 Basel World Watch and Jewellery Fair held in March 2001 and will be on a year-long world tour from October this year onward. Goldpfeil has entered into strategic alliance with Stefanie Graf, the renowned German tennis player, to introduce Stefanie Graf collections of suitcases, travel bags, ladies handbags and small leather goods by Goldpfeil. The Group will continue to uphold the Goldpfeil recognised theme of "Classiness, Elegance, Gentility" for its core leather products and to extend it to its fashion accessories, apparels, footwear, eyewear, jewellery and timepiece collections that Goldpfeil is expanding into it.
- Geographical breakdown of turnover for the period was Europe at 80%, Asia Pacific at 15% and America at 5%. The management believes that Europe has great potential to grow. By possessing over 12,000 points of sales in Europe, the Group has definite competitive advantage to deploy the market further.

In the USA, with the possession of international brandnames and strong production support in Asia and proven distribution experience in Europe, the Group is seeking appropriate distributors for strategic alliance to expand the distribution business there.

In Asia, the Group will continue to work more extensively with prominent agents and distributors, particularly in the PRC whose entry into World Trade Organisation has recently been approved. The management believes that the Group has competitive advantages in terms of internationally recognized brandname portfolio, strong production base and sourcing experience in the PRC over the competitors.

- The Group's attributable profit for the period amounted to approximately HK\$30.2 million. The decrease from previous corresponding period was mainly due to expensing all pre-launch promotion expenditure (in accordance with new accounting standards) and drop of share of results of associates. Excluding these factors, the Group basically maintained the same level of operating profit despite of the stagnant global economic environment.
- The Group is going to combine the strength of Junghans with the electronics experience of Tonic Industries Holdings Limited ("Tonic"), an associate, for developing new lines of products for mutual benefits of the two groups. The Group has recently increased its stake in Tonic from 20% to 24.8%, reflecting the Group's confidence in Tonic's prospects.

BUSINESS REVIEW & PROSPECTS *(continued)*

- In August 2001, the Group disposed of 10% interest in Peace Mark (Holdings) Limited and holds a minority stake of 6.5% as portfolio investment. The proceeds of disposal would be applied, together with the human resources released, to the development of Goldpfeil business, and extension of Junghans Systems activity, in Asia.
- The annual Egana Fair hosted by the Group in May 2001 was attended by customers in Europe as well as in the USA. Updated market information in the USA were availed. In March 2001, the Group was appointed the worldwide exclusive licensee of MEXX Time and distributor of MEXX Jewels in Germany, MEXX is a mid-priced lifestyle brand whose products are sold in more than 40 countries. In April 2001, the Group was appointed as the worldwide licensee for JOOP! for timepieces, jewellery and certain leather accessories including footwear, which make up the three core business activities of the Group.
- The Group will continuously pursue its three fundamental corporate strategies, being "Think Globally, Act Locally", "Related Diversification" and "Expansion through Organic Growth and Strategic Alliance", and commit itself along with the vision of enjoying income growth with direct translation into shareholder value.