

**REVIEW OF GROUP OPERATIONS**

Group turnover this year was HK\$1,243 million compared to HK\$1,137 million last year, an increase of 9%. Profit attributable to shareholders this year was HK\$55 million compared to a profit of HK\$93 million last year due to a decrease in profits from non-recurring items.

Retail and Trading Division

Turnover of our City Chain stores in HK and the rest of Asia improved by 22% compared to the same period last year whilst profits grew from HK\$2 million last year to HK\$18 million this year.

Generally speaking, over the past year, slightly better sentiment in HK and regionally together with our efforts in reengineering the City Chain brand, its image and changed product mix contributed to the better results. Building upon City Chain's forefront position in the watch business, we hope to make City Chain into one of the best retailers in HK and regionally. To this end, we have introduced fashion label sunglasses into selected stores in prime tourist areas. Our product portfolio for silver jewellery accessories was also expanded and is now sold in more City Chain stores.

Optical 88 reported an increase in turnover from last year of 12%, amidst fierce competition in the HK market. However, price wars in this sector affected profits and a loss of HK\$2 million was reported compared to a slight profit of HK\$1 million last year. To beat the competition, we will enhance the image of our stores, the quality of our sales force and also bring in new product mixes. To better our services, we have introduced various customer loyalty programmes.

Turnover at Hipo.fant improved by 24% and a slight profit of HK\$2 million was also reported compared to a loss of HK\$2 million last year. This was due to efforts made in increasing product varieties and introducing attractive promotion programs. Efforts to this end will continue into the financial year 2001/2002 as competition in this sector will remain keen with even more bargain hunting customers expecting deeper discounts. Hipo.fant has recently re-entered the Singapore market opening 2 stores and 2 more stores will be opened by Christmas 2001.

During the period under review, we have continued to build upon City Chain, Optical 88 and Hipo.fant's reputations by further strengthening their respective market shares. The Group's total stores in HK and the region increased from 356 as at 1st April 2000 to 419 as at 30th June 2001.

Turnover of our watch export and overseas trading subsidiaries decreased by 27% compared to last year. However, profit was up from HK\$4 million to HK\$9 million this year due mainly to improved sales margins and efficient cost controls. The smaller turnover was due partly to higher unit prices because of the strong US dollar and to logistical problems.

Property Investment

Stelux House continues to contribute stable income and leases due for renewal have been renewed at satisfactory rents. During the year, surplus written back on the revaluation of Stelux House amounted to HK\$27 million while deficits on the revaluation of other investment properties amounted to HK\$2 million.

Two shop properties were disposed of at an aggregate sales proceeds of HK\$107 million with a net profit of about HK\$18 million. Presently, the Group still owns 3 shops in Hong Kong and 5 shops in Macau.

FINANCE

During the year, Swiss Francs Convertible Notes (the "Notes") in a total nominal amount of SFr29.5 million had been repurchased at an average discount of 10 per cent and balance of the Notes in a total nominal amount of SFr29.4 million were fully redeemed on 30th March 2001. There were no Notes outstanding as at the balance sheet date.

23,270,000 shares in Bangkok Land were disposed of with cash inflow of HK\$11.7 million. The number of shares held at the balance sheet date was 730,067.

The Group's borrowings (including bank loans and the Notes) at balance sheet date were HK\$511 million (2000: HK\$665 million), out of which, HK\$203 million (2000: HK\$388 million) were repayable within 12 months. The Group's gearing ratio at balance sheet date was 0.68 (2000: 0.92), which was calculated based on the Group's borrowings and the shareholders' funds of HK\$757 million (2000: HK\$725 million).

4% (2000: 42%) of the Group's borrowings were denominated in foreign currencies. Group's borrowings denominated in Hong Kong Dollars were on a floating rate basis at either bank prime lending rates or short-term inter-bank offer rates.

The Group does not engage in speculative derivative trading.

STAFF

The Group's remuneration policies are reviewed on a regular basis and remuneration packages are in line with market practices in the relevant countries where the Group operates. As of 31st March 2001, the Group had 1,853 employees. Details of the outstanding share options were disclosed in the note 20 to the accounts.

I express my most sincere thanks and gratitude to colleagues and staff members for their commitment, hard work and loyalty to the Group during the year.

PROSPECTS

Hong Kong continues to suffer from deflation. The Asian region is beset with political and economic problems and the US economy remains sluggish. Although, the mainland's entry into WTO is imminent, its effects will not be seen in HK in the very near future. Thus, these negative factors will continue to undermine consumer confidence and spending habits in the financial year 2001/2002.

However, we remain excited about what we have done and will continue to do in product development and reengineering the operations of our 3 retail chains to improve their profitability.

To meet a challenging year ahead of us, we will increase our efforts in a number of key areas – further improvement in product development, enhanced product quality, deliveries and fine tuning product mix, shop location and prices. We believe we can meet these challenges and expect to see positive results from our core business next year.

On behalf of the Board

Joseph C. C. Wong
Managing Director

Hong Kong, 19th July 2001