

OPERATIONS REVIEW

Overview

- 2001 was a year of turmoil worldwide leading to sharp decline in profitability for many businesses, including a number of entities in the fashion accessory sector. In order to deal with the changes in the economic environment, several large luxury fashion houses have shifted their business strategy from expansion through acquisition towards reduction of investments and maximization of returns on core assets.
- For our Group, 2001 was essentially a time to focus on product and business development to prepare for the challenges ahead of us due to the worsening economic environment prevailing throughout the period. In retrospect, this development strategy proved to be appropriate and we did not get caught up in the craze of acquiring potential businesses/brandnames at inflated valuations.
- Our status as a trendsetter in the fashion accessory industry has once again been recognized with both our Esprit Timewear and Esprit Jewel having been ranked as top three bestsellers in the trendy watch and jewellery segments by German retailers in 2001. Our appointment as the worldwide exclusive licensee of MEXX Time and distributor of MEXX Jewel in Germany and Austria, and as the worldwide exclusive licensee for JOOP! timepieces, jewellery and some leather accessories in the first half of 2001 further demonstrates the Group's proven trendsetting experience and enables the Group to extend our portfolio with well-known brandnames.

Timepieces Operations

- With the participation in Junghans Uhren GmbH (“Junghans”), the Group has been reallocating its resources from bought-in-finished products activity with lower contribution margin, to having more in-house production of branded products (which have better margin and customer retention rate).
- Junghans is a pioneer in technological innovations in the field of movements including radio-control, solar, and transponder technology (the Junghans Systems). It has been successful in combining these three advanced technologies into one watch. This Junghans Systems watch is truly “customer-oriented” with value added function and is environmentally friendly, a testament to our corporate vision.
- The Junghans radio controlled (referred to as “atomic” in the US) technology has also been incorporated into our upscale sports brand Carrera to echo its theme “Life is the Fast Lane”, for a unique range of Carrera Time Engineering watches that were introduced with encouraging response at the Las Vegas JCK Show in June 2001. The combined strengths of Junghans and Carrera have provided strong synergies to our timepieces division.

Jewellery Operations

- Our manufacturing support continues to strengthen through the recent joint venture with an Israeli diamond supplier group for servicing our upscale and luxury jewellery lines including Kazto and Jacquelin collections. Keimothai factory has improved its processing capability to lend greater support to the Group’s upscale diamond and gold lines, in particular for US operations. Speidel factory located in China has further extended its expertise in the areas of silver and fashion jewellery, in addition to its established gold electroforming process, which will be made available for supporting the US market.
- Abel & Zimmermann, our German subsidiary acquired in September 2001, makes 60% of its sales to exclusive jewelers in the US. Its high quality craftsmanship and unique one-of-a-kind designs are complementary to the concept for Kazto and Jacquelin. These upscale brand names are being introduced to an enlarged customer portfolio, with synergies being realized.

Leather/Lifestyle Operations

- Our owned trademark, Goldpfeil, remains ranked number one in the German luxury brand segment in terms of brand awareness, readiness to buy and market share. We continue with our commitment to develop this brand with 150-year history in the leather industry into a “true” lifestyle brand.
- To enhance the product range, Goldpfeil has entered into a co-operation arrangement with Stefanie Graf, renowned German tennis player, to introduce Stefanie Graf by Goldpfeil collections of suitcase, travel bags, ladies handbags and small leather goods.
- The first ever Goldpfeil watch collection comprising seven “one-of-a-kind” watches, and seven “limited edition” watch series, each individually designed by seven top craftsmen who are members of the famous Académie Horlogère des Créateurs Indépendants is in the midst of a year-long world tour for display at some of the finest jewelers in major cities around the world. These seven “one-of-a-kind” Goldpfeil watches are to be placed on auction by Christie’s in Autumn 2002. The strategic alliance with the “Magnificent Seven” top craftsmen in the timepieces industry has given prestige in keeping with the Goldpfeil tradition of product excellence.
- In addition to our first Goldpfeil shop at the Marco Polo Hong Kong Hotel, which features leather and opticals, we have in November 2001 opened a flagship store in the heart of Central, Hong Kong.
- In Japan, the brand awareness of Goldpfeil continues to be enhanced. The two Goldpfeil flagship stores in Japan contributed 15% of sales revenue of Goldpfeil in Japan. Together with prestigious and upscale department stores, retail outlets and specialty shops, the Goldpfeil network in Japan has been extended to over 100 points of sale. Seeing the success in Japan, Goldpfeil Japan is now commissioned to take charge of the business activities in Taiwan, South Korea, Guam and Hawaii (which have a large portfolio of Japanese consumers).
- Goldpfeil jewellery collection is planned for launch in the 4th quarter of 2002, and is expected to capture world attention primarily from discerning customers in Japan, Hong Kong, Europe, the Middle East and the US.