

## PROSPECTS

### Europe

With the monetary unification in Europe, we are taking the opportunity to centralize our distribution centers and more effectively utilize our established intranet and extranet systems. Our five existing logistics & distribution centers will be combined into one location in Dietzenbach (near Frankfurt), Germany. Our regional headquarters for Europe will be relocated to Offenbach (near Frankfurt), Germany, where our famous Goldpfeil brand was founded. With our logistics and regional headquarters centralized, we anticipate that our delivery times will be reduced and our supply chain system linked to our Asia operations will result in improved lead times. This will result in improved service and enhance our long-term growth in line with our corporate vision.

### Asia

Our recent success in extending the presence in Asia of Goldpfeil lifestyle products has been encouraging, particularly in Japan, where our subsidiary has responsibility for initiating and driving development of the well-known brand throughout the Asia Pacific region. We plan to increase the number of flagship stores in Japan to 30 within three years' time.

The formal establishment of Junghans Asia Limited to act as the focal point in Asia for the Junghans business demonstrates our Group's commitment to the ongoing strengthening and extension of our core activities into Asia. In 2001, we have undertaken certain communication and market development in Asia with respect to the Junghans Systems (transponder technology), radio-controlled (atomic) systems of Junghans and solar energy with encouraging response. We have now secured the distribution of Junghans Systems watch for application to public transport and retail network in Taiwan. With respect to other countries, we are in the process of developing appropriate business cooperation arrangement for Junghans Systems (transponder) watch business with interested parties in South Korea, Taiwan, Singapore, Malaysia, Japan, and China (Hong Kong, Shenzhen, Guangzhou, Shanghai, Beijing).

Japan has recently completed a new transmitter station that will enable the use of the Junghans radio-controlled watch not only in Japan but also the coastal regions of China (covering Beijing, Shanghai and South China), South Korea and Taiwan. We believe that radio-controlled technology for timepieces is the trend of the future and we are uniquely positioned to successfully ride the technology wave. China's accession to the WTO and its hosting of the 2008 Summer Olympics are expected to provide vast potential for our application of the Junghans technology.

### USA

We remain cautiously optimistic about our entry into the competitive US jewellery, watch and leather markets. Our US operations have reflected a loss, previously due to the expenditure incurred for the communications and marketing program to upkeep the international image and the overall brand value of the trademarks. The international coverage has positive contribution to the Group in terms of building up the brand name image in Europe and Asia.

In the US, we are focusing on the upscale prestigious sector of the jewellery market, which our market research has determined is a good segment for our entry into the US market. We are working towards bringing up awareness of our Group with our brandnames such as Kazto, Jacquelin, Abel & Zimmermann. The upscale watch sector has similar distribution network as the upscale jewellery sector, and our US jewellery team led by US deBeers award winning designer, Jacquelin Grosser-Samuels, is working on timepieces distribution in conjunction with jewellery.

We intend to extend our distribution presence in the US through strategic alliance. This will increase in-house production and product development. This shift from bought-in-finished products to in-house production is expected to increase the overall profit margin and lead to more cost effective supply lead-time for the benefit of the Group and our customers.

The high stance of Goldpfeil in the leather industry in Europe and Asia and the recent launch of Goldpfeil unique watch collections to an overwhelming response worldwide has confirmed the appropriateness of a lifestyle concept for the brandname. Our market research and communications strategy in the US have confirmed that US consumers are becoming more brand conscious and the concept and quality of Goldpfeil products are well suited for the US market. The Group is committed to expand its presence into the US market through active but appropriate mode of strategic alliance in the form of franchising or other business co-operation arrangement. We are confident that the 150-year history, superior quality, distinguished elegance and innovative use of materials set the trend for the Goldpfeil brand to become a leading brand in the US, thereby enriching its global prestigious stance as a reflection of its image and growth in Europe and Asia.