MANAGEMENT DISCUSSION AND ANALYSIS

The Group's turnover for the 12 months ended 31st December, 2001 was HK$2,204 million (US$282.6 million) (as compared to HK$2,454 million (US$315 million) in 2000). The decrease is attributable in large part to the continuing instability of the Euro against the US Dollar resulting in a translation loss with impact on profit margin due to our established company policy of not adjusting prices charged to customers once they have been set at the start of each season, which has the benefit of enhancing customer loyalty for the long-term benefit of the Group. The Group has concluded forward currency/option contracts so as to limit our exposure to adverse currency fluctuations. In addition, the Group has undertaken strict cost control measures and will continue to improve sales mix to enhance its competitiveness.

The "Sept-11" issue has affected our US operations performance, which reflected a reduction in profit of HK$17 million in 2001. The recent economic statistics in the US illustrate that the US recovery is on its way, which will impact positively upon our US business activities.

Breakdown of turnover by product type for the period in 2001 was: timepieces comprising 52% (2000: 46%), jewellery 27% (2000: 27%), leather 19% (2000: 24%) and others 2% (2000: 3%). These figures are consistent with those for the prior period. Geographical breakdown of turnover for 2001 was: Europe at 80% (70% in 2000), Asia Pacific at 12% (23% in 2000), and America at 8% (7% in 2000). Turnover from our brandnamed products was 78%, compared to 72% in 2000.

Operating profit from operations was HK$128 million (US$16.4 million), representing a profit margin of 5.8% and a return on equity of 9.9%. Gross profit margin has improved by 2%, to 40%, as a result of a combination of improved product mix towards branded items and enhanced manufacturing efficiencies.

Despite the lackluster performance of the luxury fashion accessory industry in 2001 as a result of the economic downturn and political turmoil, we remain in a strong financial position. Our 2001 leverage ratio (total debts/shareholders' funds) was 122% compared to 118% in 2000, which continues to remain ahead of the industry average of 180%. Our gearing ratio (net borrowing/tangible net worth) for 2001 was 78%, compared to 31% in 2000, still ahead of the industry average of 80%. Our debtors turnover was 55 days (2000: 60 days), still ahead of the industry average of 120 days.

As at 31st December, 2001, bank borrowings amounted to HK$992,846,000 (2000: HK$659,034,000). The portion repayable within 1 year was HK$784,120,000 (2000: HK$632,490,000) while loans repayable after 1 year but not exceeding 5 years amounted to HK$187,520,000 (2000: HK$20,587,000) and those repayable after 5 years amounted to HK$21,206,000 (2000: HK$5,957,000).

Internal resources and/or debt financing will be used by the Group to meet the funding requirement for business expansion plan, capital expenditure and acquisition projects.

There are no significant capital commitments as at 31 December, 2001, which would require substantial use of Group's cash resources or external funding.

Shareholders' funds reached HK$1,302 million (US$167 million), a 5.6% increase over 2000.