REVIEW OF GROUP OPERATIONS

Group turnover this year was HK$1,217 million slightly lower than the previous year's turnover of HK$1,243 million. This year the Group reported a loss attributable to shareholders of HK$10 million compared to a profit of HK$55 million last year due primarily to a provision of HK$39 million on the revaluation of fixed assets and investment properties.

Retail and Trading Division

Overall this year, our core retail and trading businesses maintained a profit level similar to last year at HK$24 million albeit admist the extremely weak retail sentiment in Asia. Continued improvements last year in key areas like product development, quality, mix and shop location contributed to the results.

Hong Kong Retail

The difficult conditions in Hong Kong continued to impact on our three retail chains. City Chain recorded a drop in profit to HK$11 million compared to HK$19 million last year. Both Optical 88 and Hipo.fant reported losses. Promotions, packaged services and customer loyalty programmes at competitive prices helped to maintain turnover which remained almost unchanged but lower margins continued to drag down the results of these three chains. Efforts to better profit margins will continue by increasing products with healthier margins through change of product mix and improvements on sourcing.

Asian Retail

Retail operations in South East Asia and Macau recorded significant growth in both turnover and profit compared to last year with the exception of Hipo.fant in Singapore where investment in brand building continues. Operating profit for this year, after taking into account a write off of HK$6 million for closing down operations in Indonesia, was HK$8 million compared to a slight loss last year. Thailand, Singapore and Macau contributed mainly to the improved results. Our marketing efforts and effective cost controls boosted profitability. Losses in Taiwan were also reduced on closing down non-performing shops and restructuring of operations.

Export and Trading

Turnover of our watch export and overseas trading subsidiaries was maintained at a similar level compared to last year. An overall profit of HK$14 million was reported compared to a profit of HK$9 million last year. Results would have been generally better but for the strong US currency during the period, the September 11th events and a less than expected response to some new watch models. Our U.K. subsidiary, in particular, reported double digit growth in both turnover and profit.

Property Investment

Stelux House continues to contribute stable income and leases due for renewal have been renewed at satisfactory rents. At the year end, a deficit on revaluation of Stelux House amounted to HK$23 million while a deficit on revaluation of other investment properties amounted to HK$4 million. In addition, impairment charge for a shop property amounting to HK$12 million was provided for in the year.

A shop property was disposed for HK$21 million at a slight loss. Presently, the Group still owns 2 shops in Hong Kong and 5 shops in Macau.

FINANCE

The Group's bank borrowings at balance sheet date were HK$511 million (2001: HK$511 million), out of which, HK$235 million (2001: HK$203 million) were repayable within 12 months. The Group's gearing ratio at balance sheet date was 0.68 (2001: 0.68), which was calculated based on the Group's bank borrowings and shareholders' funds of HK$746 million (2001: HK$757 million).

Of the Group's bank borrowings, 3% (2001: 4%) were denominated in foreign currencies. The Group's bank borrowings 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 2002, the Group had 1,817 (2001: 1,853) employees.

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

Tough retail conditions in Hong Kong will persist but based on the performance of the first quarter ending 30th June 2002, we nevertheless expect to see improved results from the three chains in the next year.

With the South East Asian economies picking up, we will continue with our strategy of growth in countries like Thailand, Malaysia and Singapore by selectively opening shops.

Optimism is high for the Group's flagship brand Universal Geneve which has been remodelled to attract younger customers. Initial sales have been good. With a focused marketing team in place, we expect sales to contribute to the performance of our major export and watch trading subsidiaries next year.

In summary, for the next year, we will continue with the strategies which we have implemented so far. Firstly, selective growth in some countries by developing market share through opening more shops and closing non-performing shops when their leases expire. Secondly, continued improvements in key operational areas, like product development, product mix and sourcing. Thirdly, effective cost controls to reduce operational costs.

Barring unforeseen circumstances, we expect our core businesses to report positive results next year.

On behalf of the Board
Joseph C. C. Wong
Managing Director

Hong Kong, 19th July 2002