REVIEW OF GROUP OPERATIONS

Group turnover this year was HK$1,198 million slightly lower than the previous year's turnover of HK$1,217 million. This year the Group reported a larger loss attributable to shareholders of HK$41 million compared to HK$10 million last year. Losses this year were due primarily to a provision of HK$38 million on the revaluation on investment properties and provision for the impairment in value of land and buildings.

Retail and Trading Division

Our core retail and trading businesses posted a drop in profit to HK$18 million this year, compared to a profit of HK$27 million reported last year. Turnover dropped marginally by less than 2%. Strategies implemented so far, like selective expansion in some Asian countries, operational improvements to better margins and effective cost controls contributed to the positive performance. However, the smaller profit posted was due to the joint impact of SARS and uncertainty stemming from the Iraqi War.

City Chain

Our City Chain Hong Kong and Asian operations posted a higher profit of HK$24 million compared to a profit of HK$16 million last year. Turnover fell by 6.5%. SARS dragged down Hong Kong's performance in the month of March – a period when seasonal sales traditionally contribute significantly to turnover.

Individual operations in Thailand, Singapore, Malaysia and Macau reported positive results with the exception of Taiwan reporting a loss of HK$5 million. Restructuring activities have been completed in Taiwan the effect of which is to maintain a minimum retail presence in several key locations.

"adidas", "Cyma" and "Solvil et Titus" watch brand counters have been established in key locations in China to further enhance brand identity amongst Chinese consumers. Two City Chain shops have also been opened in Guangzhou.

Optical 88

Our Optical 88 Hong Kong and Asian operations reported a profit of HK$3 million compared to a loss of HK$1 million last year. Turnover was maintained. Better gross margins and the closure of non-performing shops contributed to the improved results. Staff enhancement training at all levels has taken place this year in Hong Kong as a means of improving quality of services. We expect to see further improvement in gross margins next year.

Two Optical 88 shops have also been opened in Guangzhou.

Hipo.fant

Our Hipo.fant Hong Kong and Asian operations reported poor results with a loss of HK$14 million, compared to a loss last year of around HK$4 million. Turnover was down by 8%. In Hong Kong, weak sentiment and low margins due to heavy discounting contributed to the poor performance. Initial response to the new face of Hipo.fant and new product lines unveiled in February 2003 was positive but much of that impact was whittled away by the SARS outbreak in early March. Cost control measures have now been implemented to improve overall results in the next year.

Watch Assembly, Export and Trading

The profits of our export and overseas trading subsidiaries and watch assembly subsidiaries dropped considerably this year from a profit of HK$16 million last year to a profit of HK$5 million this year. The result was affected by uncertainty surrounding the Iraqi War during the year.

Property Investment

Stelux House continues to contribute stable income to the Group. Rental income for the year was approximately HK$33 million (2002: HK$32 million). The total floor area occupied was 93.27% (2002: 91.02%).

FINANCE

The Group's bank borrowings at balance sheet date were HK$529 million (2002: HK$511 million), out of which, HK$264 million (2002: HK$235 million) were repayable within 12 months. The Group's gearing ratio at balance sheet date was 0.74 (2002: 0.68), which was calculated based on the Group's bank borrowings and shareholders' funds of HK$710 million (2002: HK$746 million).

Of the Group's bank borrowings, 3% (2002: 3%) were denominated in foreign currencies. The Group's bank 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 2003, the Group had 1,773 (2002: 1,817) 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

The SARS outbreak has impacted on the first quarter's (2003/2004) retail sales turnover across Hong Kong and Asia. Market conditions in Hong Kong will remain tough. Although the return of visitors over the next few months will help to boost turnover to pre-SARS levels, we do not expect to see a marked improvement from our Hong Kong retail business next year as local purchasing power is still weak. Consolidation will continue with the closure of non-performing shops. Together with better cost control and better margins, we expect our Hong Kong business to remain profitable.

We shall continue to focus on selective expansion in Asian countries for all three chains next year. We expect this region to post improved profits in the next year.

Through the year much preparatory work has been done in China in anticipation of the lifting of retail restrictions in 2004. This preparatory work will continue for all three chains next year. In particular, Hipo.fant will set up brand counters in key cities in China.

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

Hong Kong, 17th July 2003