## REVIEW OF GROUP OPERATIONS

The Group reported a slightly higher turnover this year of HK$1,218 million compared to HK$1,198 million last year. This year the Group is pleased to announce a profit attributable to shareholders of HK$85 million compared to a loss last year of HK$32 million representing a turnaround from last year.

**Retail and Trading**

This Division includes the Group's 3 core retail chains, "City Chain", "Optical 88", "Hipo.fant" and its export trading arm. Although, this Division's performance was hard hit by SARS in the first quarter, our operations in Hong Kong and region wide recovered quickly in the latter six months of the year. Our Hong Kong operations, in particular benefited from the mainland's solo visitor policy. An advertising campaign for "Solvil et Titus" was successfully launched during the year to strengthen the brand's image. As a result, we saw increased watch sales and consistently higher margins.

As of 30th June 2004, the Group was operating 454 shops and counters, an increase of 53 from the previous year. These additional shops and counters were opened in Thailand, Singapore, Malaysia and Mainland China.

*City Chain*

City Chain Hong Kong doubled profits, reporting profits of nearly HK$21 million compared to HK$10 million last year.

Overall City Chain operations in Thailand, Singapore, Malaysia, Macau and Taiwan recorded profits of HK$30 million doubling the previous year's profits of approximately HK$15 million. Operations in these countries also generally reported improved turnovers compared to last year, with Malaysia and Thailand reporting the largest increases in turnover of 45% and 22% respectively.

*Optical 88*

Stronger demand in the latter 6 months of the year enabled our operations in Hong Kong and the rest of Asia to generally report increases in turnover. New shops also added to increased turnovers. Singapore and Thailand reported increased turnovers from the previous year of 19% and 34% respectively.

Our Hong Kong operations reported profits of nearly HK$6 million this year compared to breakeven results last year. Likewise, operations in the rest of Asia excluding Mainland China, recorded profits of HK$5 million compared to HK$4 million last year. The positive results were largely attributable to steadily increasing gross margins.

*Hipo.fant*

It continued to be a tough year for Hipo.fant. Although our operations in Hong Kong and Asia managed to report a slight 2% increase in turnover to about HK$81 million up from HK$79 million the previous year, losses widened to HK$15 million this year. Despite the recovery in the general retail market, our customers continued to look for discounts. This impacted on gross margins. Six non-performing shops have been shut upon their lease expirations and we will continue to close non-performing shops upon their lease expirations. During the year, counters (including through licensing arrangements) were opened in major cities in Mainland China.

*Export and Trading*

Our export subsidiary saw an increase in turnover of 16%, from HK$98 million to HK$114 million this year. A profit of nearly HK$14 million was reported compared to a profit of HK$6 million last year. The weak US currency and special promotional projects with our European distributors boosted sales. Some markets like Japan and Korea performed better than expected.

Our UK trading subsidiary saw a drop in turnover of 10% from last year of HK$110 million to HK$100 million this year. Profits were down to HK$2 million this year compared to HK$7 million last year.

For cost control reasons, we closed our USA subsidiary during the year. Sales to the USA are now made through our export arm in Hong Kong.

As for Universal Geneve, there will be a shift in brand positioning and product development. There are plans to concentrate future product development on automatic/mechanical watches. Therefore, in the current year, a provision of HK$7 million has been made for lower priced inventory. This has increased losses for the year to HK$13 million compared to about HK$5 million last year.

**Property Investment**

Stelux House continues to contribute stable income to the Group. Rental income for the year was approximately HK$30 million (2003: HK$33 million). The average floor area occupied during the year was 85.49% (2003: 92.15%).

Surplus on revaluation of investment properties was HK$26 million compared to the previous year's deficit of HK$33 million.

Compensation of HK$30 million relating to the arbitration with respect to the construction of Stelux House was recognised this year. An additional HK$18 million has been paid by the contractor as reimbursement towards the rectification costs for the exterior cladding of Stelux House.

**FINANCE**

The Group's bank borrowings at balance sheet date were HK$503 million (2003: HK$529 million), out of which, HK$253 million (2003: HK$264 million) were repayable within 12 months. The Group's gearing ratio at balance sheet date was 0.61 (2003: 0.74 as restated), which was calculated based on the Group's bank borrowings and shareholders' funds of HK$820 million (2003: HK$718 million as restated).

Of the Group's bank borrowings, 4% (2003: 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 2004, the Group had 2,048 (2003: 1,773) 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**

Given the better trading environment in many of the countries which we operate in and based on the Group's performance in the first quarter of the financial year 2004/2005, we expect to see positive results in the next financial year. However, with the strong recovery, we also expect to see adjustment pressures on shop rentals and other costs and this will impact on margins.

In the next 6 months, material investments will be made as we continue to expand our operations in Thailand, Malaysia, Singapore and Mainland China. It is expected that funds for such investments will come from internal funds and bank borrowings.

On behalf of the Board
**Joseph C. C. Wong**
*Vice Chairman and Chief Executive Officer*

Hong Kong, 15th July 2004