Mr. Tsang Kwong Chiu, Kevin
Chief Financial Officer

Financial Performance

The Group recorded a 35.1% growth in turnover to HK$1.94 billion (2004: HK$1.43 billion) for the year contributed by the strong growth from both the US manufacturing and distribution as well as the China distribution and retailing sectors. Profit attributable to shareholders increased by 54.8% to HK$124 million representing an improved margin of 6.4% (2004: 5.6%).

The increase in turnover and profit attributable to shareholders were mainly due to the strong organic growth of the distribution business in the US and the successful penetration in the distribution and retail watch markets through various acquisitions and partnerships involving distributors and retailers in China.

For the US operation, subsequent to the strengthening of the US marketing team, as well as further vertical integration within the China operation and the implementation of stringent controls over operating expenses, the US business showed encouraging improvement in both the top and the bottom lines. The total revenue for the US distributions was HK$855 million and the EBITDA margin was at 13.8%.

The surge in financial performance in the China market was the result of the establishment of the nationwide distribution and retail network with 560 points of sale covering the whole of China selling international fashion and casual watches. Since the financial performance of some of the acquisitions has not been consolidated on a full year basis, the full year consolidated results of these acquisitions are expected to be reflected in the next reporting year.

The manufacturing division also showed improved results due to enhanced production efficiency, increased orders from the China business, and the shift towards a higher margin product mix after the new component factory was in production in September 2004. All these moves have counter-acted the negative impact of increased raw material prices and general utility costs. The EBITDA margin of the manufacturing business is maintained at more or less the same level as last year.

The gross profit margin continued to improve from 24.1% to 27.8%. The expected improvement was due to the Group's successful execution of its downstream expansion strategy into the distribution and retail businesses in the United States and in China.

Selling and distribution expenses

The Group's selling and distribution expenses increased by approximately 54.0%, representing 9.4% of the Group's turnover as a result of the Group's downstream expansion. The increase in selling and distribution expenses were in line with the significant growth in the distribution and retail businesses. Included in the selling and distribution expenses were provision for bad debts amounting to HK$18.9 million.

Administrative and general expenses

The Group's administrative and general expenses increased by 64.9% over FY2004. During the year, staff costs, professional consultation expenses, and traveling and other office expenses increased with the expanded operation. Included in the administrative and general expenses were impairment loss of goodwill amounting to HK$12.6 million.

Liquidity and Financial Resources

Shareholders' Funds

Total shareholders' funds of the Group as at 31st March, 2005 was increased from HK$778 million to HK$1,112 million representing a 42.9% increase.

Financial Position

In April 2004, the Company raised HK$202 million by way of placing of 126,500,000 new shares for the expansion of a high-end components production facility in China, the development of the distribution and retail businesses in China as well as the general working capital requirements. This equity fund raising exercise was in line with the Group's policy to finance long-term projects and business plans by long-term and equity financing in order to avoid mismatch of debt maturities.

The bank borrowings were mainly comprised of trade finance and term-loan facilities. The Group generally finance its operations with internally generated cash flow and short-to-medium term credit facilities provided by commercial banks in Hong Kong and the PRC. As at 31st March, 2005, the Group had outstanding bank borrowings of HK$941 million of 71.4% of a current nature and 28.6% of a long-term nature. The cash and bank balances were maintained at a level of HK$666 million. The net debt position was HK$275 million. The net gearing ratio, calculated by dividing the total bank borrowings net of cash and bank balances over shareholders' equity, decreased from 43% as at 31st March, 2004 to 25% as at 31st March, 2005.

The maturity profile of the Group's bank borrowings were further expanded and the interest costs lowered by entering into a syndicated loan agreement in April 2005. The syndicated loan was in the amount of HK$630 million with 80% structured as a 4-year term loan and the remaining as a revolving credit. The principal purpose of the syndicated loan was to refinance the previous syndicated loan and fund the general corporate expansion plans and working capital.

During FY2005, the Group recorded a net cash inflow from operating activities of HK$171 million. The working capital requirements has been well managed given the expanded downstream business. Overall, the Group's liquidity position remained strong and the Group at the balance sheet date had adequate cash resources and sufficient banking facilities for working capital requirements and future investments in new business developments.

Funding and Treasury Policies

The Group's treasury policy is to manage the Group's assets and liabilities to reduce its exposure to fluctuations in foreign exchange and interest rates. In the normal course of business, the Group enters into certain derivative contracts to hedge its exposure to fluctuations in interest rates and foreign currencies. These instruments are executed by creditworthy financial institutions. Gains and losses on these contracts are applied to offset fluctuations that would otherwise impact the Group financial results. Costs associated with entering into such contracts are not material to the Group financial results. Over 75% of the Group's borrowings were in Hong Kong and US Dollars with the balance in Renminbi. It is the Group's treasury policy to manage its foreign currency exposure whenever there is material financial impact to the Group.

Regarding the possibility of RMB revaluation, the Group has reduced its RMB borrowings to the extent of HK$80 million subsequent to the balance sheet date. Approximately 24% of the operating expenses and purchase costs are denominated in RMB. For FY2005, 18% of the revenue was generated in China. The RMB appreciation will positively impact profitability for FY2006 should the expansion of the Group's China business develop at a pace as planned.

Working Capital

The net current asset as at 31st March, 2005, was HK$659 million, an increase of 3% as compared to HK$638 million in 2004. The current ratio was 1.7, and has been further improved after the completion of the syndicated loan on April 2005.

The inventory turnover period increased to 107 days from 90 days in FY 2004 as a result of longer business cycle for the US manufacturing and distribution business. Moreover, inventory turnover days was distorted by the newly acquired subsidiaries involving in the China retail business. As most of the acquisitions took place in the middle of the financial year, the financial results were not consolidated on a full year basis which led to prolonged inventory turnover days.

Trade and other receivables turnover time was decreased from 94 days to 75 days due to strong credit control over the customers. During the year, the Group made provision for bad debts amounts to HK$18.9 million.

Trade and other payable was HK$223 million with a turnover time of 48 days. Since the financing costs charged by suppliers have been in general much higher than that of bank borrowings, the Group has adopted a policy to make use of its banking facilities to finance production purchases.

Use of Proceeds from the Placement and Subscription of New Shares

The net proceeds from the placement and subscription of new shares, completed in April 2004, was approximately HK$202 million. Of which, approximately HK$135 million was spent on the development of distribution and retail networks in China and the balance was for the development of an upscale components manufacturing facility in Longhua, China.

Major Acquisitions

In June 2004, an acquisition of 51% equity interest in the capital of a mechanical watch movement factory in Shanghai, China was completed. The total investment amount including the loan to the factory for future expansion amounted to HK$37 million. Part of the amount has been utilized for upgrading the production facilities of the factory.

The Group acquired from an independent third party a registered class-35 trademark, "TimeZone", which is a channel name for a multi-brand nationwide network of 170 points of sale for mid-range fashion brands in China during FY2005. The total consideration for the acquisition is approximately HK$36 million.

The Group acquired four independent PRC marketing and distribution companies in China for a total consideration of HK$56 million; which complements the Group's retail network developments in China. One of the marketing and distribution company is located in Shanghai and holds an exclusive distribution right for a renowned Swiss fashion brand for the Eastern part of China, the other three are in Chongqing, Xinjiang and Xiamen.

Capital Expenditure

During the year, total capital expenditure of the Group was HK$122 million of which approximately HK$70 million was spent for the setup of the high-end production facility and the rest were mainly for the distribution network and general maintenance capital expenditures.

Employees and Remuneration Policy

As at 31st March, 2005, the Group employed over 4,000 employees worldwide. The Group remunerates its employees based on their performance, experience and prevailing industry practices. In addition, the Group has established discretionary bonuses, employee share option schemes and a share incentive scheme, to motivate and reward employees to achieve the Company's business performance targets.

Share Incentive Scheme

On 13th December, 2004, the Company adopted a share incentive scheme (the "Scheme") which will enable selected eligible persons to purchase shares of the Company (the "Shares") at a 5% discount to the market price. The selected eligible persons have the option of paying for their Shares in one lump sum, or by monthly instalments. Where eligible persons choose the latter option, they will pay an additional finance charge to cover the Company's finance costs.

Eligible Persons will not be able to dispose Shares purchased under the Scheme immediately following their purchase. Those selected Eligible Persons who opt to pay for their Shares in one lump sum will be able to dispose their Shares after one year, while those who opt to pay for their Shares in installments will be able to dispose their Shares over a period of time commencing after one year and ending when they make their final instalment payment.

The Company has obtained a loan in the amount up to HK$50 million from a bank for the purpose of financing the operation of the Scheme. Shares to be purchased pursuant to the Scheme will be purchased on behalf of the Eligible Persons by the Custodian. The Custodian will hold the Shares on behalf of the Eligible Persons until they are permitted under the rules of the Scheme to dispose of their Shares.

The aggregate number of Shares to be offered under the Scheme shall at all times be less than 5% of the issued share capital of the Company from time to time and the aggregate acquisition cost of all Shares purchased under the Scheme shall not exceed HK$50 million.

Contingent Liabilities and Capital Commitment

As at 31st March, 2005, the Group had contingent liabilities in respect of bills discounted with recourse amounting to approximately HK$10 million.

The Company has given corporate guarantees to banks in respect of general banking facilities granted to subsidiaries amounting to approximately HK$1.5 billion.

As at 31st March, 2005, there was no material capital commitment.