

# Chairman's Statement

## FINANCIAL RESULTS

The turnover of the Group for the year ended 31st March 2001 amounted to HK\$240,358,000 representing a slight increase of HK\$2,246,000 compared to the previous year. The Group's operating loss for the year ended 31st March 2001 was HK\$25,370,000 (2000 : operating profit of HK\$33,000). For the year ended 31st March 2001, the overall gross profit margin declined to 26.5% as a result of additional provisions against stock. In addition, pressure on pricing from the Group's OEM customers and the higher proportion of OEM sales to the US mass market, where profit margins are generally lower, also contributed to the decline in the overall gross profit margin of the Group.

## DIVIDEND

The Board of Directors does not recommend the payment of a dividend for the year ended 31st March 2001 (2000 : nil).

## REVIEW OF OPERATIONS

### Assembly of watches and manufacture of cases ("OEM business")

As a result of highly competitive market conditions facing the Group, the turnover of this division declined from HK\$169,294,000 in 1999/2000 to HK\$160,655,000 in the latest financial year. Whilst in the US market, sales improved by HK\$14,854,000, such improvement was more than offset by the significant decline in sales to the French and Indian markets. Operating loss from this division for the year ended 31st March 2001 was HK\$12,937,000 (2000 : operating profit of HK\$3,041,000), which was mainly caused by deterioration in profit margins and stock provision.

### Retail sales of watches and bags in the PRC

For the year ended 31st March 2001, the turnover of this division including watch products manufactured by the Group, was HK\$77,940,000, an increase of HK\$17,661,000 (or approximately 29%) compared to last year, mainly as a result of the net opening of 27 TimeZone outlets and the full year sales effect of the rollout of Q.bags outlets. As at 31st March 2001, the Group operated 102 TimeZone outlets, 47 Q.bags outlets and had an additional presence in 16 department stores.

Whilst turnover showed a promising increase, the division incurred an operating loss of HK\$11,767,000 for the year ended 31st March 2001 compared to an operating loss of HK\$2,922,000 in the previous year. The deterioration in profitability was mainly as a result of the reallocation of expenses in respect of Hong Kong personnel and stock provision.

Adjusting for these relocation of expenses last year, and taking into account stock provision for the year ended 31st March, 2001, the operating loss would be reduced by HK\$3,198,000.

### Trading of watch movements

Trading in watch movements was discontinued with effect from 31st May 2000. The effect of the discontinuance is set out in note 4 to the Consolidated Income Statement.

## CURRENT TRADING AND PROSPECTS

The difficult environment in which the Group operates has been reflected in the Group's results. The Group believes that the OEM market conditions will continue to be very tough and the profit margins will stay under strong pressure due to the highly competitive market and strong price competition. In order to improve the Group's competitive edge, the Group has taken measures to closely control the purchase price of components. However, the intense pressure on prices is expected to continue for the foreseeable future.

### CURRENT TRADING AND PROSPECTS (Cont'd)

In May 2001, a firm of specialist retail consultants was appointed to undertake and implement a full review of the retail operations of the Group, with particular focus on costs. As a result of such review, the operation of the retail division is undergoing a comprehensive restructuring program which to date has resulted in an annual saving of approximately HK\$2.8 million. The Board has confidence in the future of the retail business of the Group, and anticipates raising external finance for the business.

In view of the disappointing results, the Board intends to carry out a full and detailed review of the Group's manufacturing and production process. The Board anticipates this review will be completed shortly, at which time the Company will take such action as may be necessary to address any issues identified by the review.

During the first 3 months of 2001/2002, the Group opened 7 TimeZone outlets and 5 Q.bags outlets and closed 4 TimeZone outlets and 8 Q.bags outlets. As at 30th June 2001, the Group operated 105 TimeZone outlets, 44 Q.bags outlets and had an additional presence in 16 department stores.

In view of the performance of the Group's manufacturing business, the Board is tentatively considering a number of proposals in relation to the restructuring of the manufacturing operations of the Group, including the raising of new capital and the restructuring of the Group's assets and liabilities (which may include acquisitions or realisations of the businesses and/or assets of the Group). However, the Board would like to stress that such proposals are very preliminary and none of these proposals is at an advanced stage of negotiation and consequently, there is no certainty that any such proposals may come to fruition.

### CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st March 2001 with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except that the non-executive directors were not appointed for a specific term but are subject to retirement by rotation at each annual general meeting of the Company in accordance with the Company's Bye-Laws. The Audit Committee comprised of Messrs. Garnet Harrison and Wai Chi Kin, Franklin with written terms of reference prepared in accordance with the "Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997. On 26th May 2000, Wai Chi Kin, Franklin resigned as a member of the Audit Committee and Peter Francis was appointed in his place.

As the Company is not incorporated in the United Kingdom, it has availed itself of the exemption from the requirements of the UK Listing Authority to make corporate governance disclosures and for an auditors' review thereof.

### PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31st March 2001, there was no purchase, sale or redemption of the Company's shares by the Company or any of its subsidiaries.

By Order of the Board

**Leung Wai Ho**  
*Executive Chairman*

Hong Kong, 27th July 2001