INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 September 2001 (2000: Nil).

REVIEW OF OPERATIONS

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

For the period ended 30 September 2001, the sales of the Group's OEM business amounted to approximately HK$92.0 million, representing an increase of HK$9.4 million as compared to the corresponding period last year. It was chiefly contributed by the satisfactory sales to US customers. With a view to improve the gross profit margin of the OEM division, efforts were made in streamlining the production facilities in China and negotiating with suppliers for price reduction. However, due to the worldwide, in particular the US, sluggish economy, sale prices were being squeezed and the operating loss was approximately HK$0.5 million for the period under review.

Retail sales of watches and bags in the PRC

The turnover of this division for the period under review was approximately HK$37.6 million, representing a decline of approximately HK$1.9 million as compared to the same period last year. The decrease was mainly attributable to the restructuring of the existing brand portfolio. In the first half of the current financial year, the Group had implemented an extensive sales promotion programme by offering more discounts to customers particularly during the summer time. As a result, the gross profit margin of this division for the current period had decreased as compared to the same period last year, which resulted in an increase in operating loss.

During the period ended 30 September 2001, the Group opened 18 new TimeZone outlets and 13 new Q.bags outlets. Under the regular review of the Group's retail network, some outlets were found not to perform as expected and in accordance with the Group standard. Consequently, 11 TimeZone outlets and 17 Q.bags outlets were closed. As at 30 September 2001, the Group operated a total of 109 TimeZone outlets and 43 Q.bags outlets.

CURRENT TRADING AND BUSINESS PROSPECTS

For the month of October and November, OEM sales remained steady. Although the Group faces price pressure from customers and keen competition from other suppliers, it is expected that profit margins can be maintained in the coming months. On the other hand, the Group is experiencing the negative effects of the downturn in the global economy, particularly in the US market, after the terrorist attacks on the United States on 11 September 2001. At the present moment, the Group's customers appear to be cautious about placing new orders. This will certainly, to some extent, affect the Group's OEM sales in the second half of the current financial year.

As part of the normal streamlining process, the Group has recently made redundant certain surplus staff and workers in the PRC factory in October and November 2001. The Group will also continue to enhance its collective bargaining power and negotiate with suppliers in order to achieve savings in components costs.

In addition, the management of the Group has put more emphasis on marketing. The sales team now makes more business trips to overseas OEM customers and work out new sales programs. The Research & Development department is also introducing new designs more frequently and speeding up the production of watch samples to attract the attention of our OEM customers.

CHANGE IN CONTROLLING SHAREHOLDER AND MEMBERS OF BOARD OF DIRECTORS

As detailed in the Company's announcements dated 16 August 2001 and 28 August 2001, Mr. Leung Wai Ho ("Mr. Leung"), the former controlling shareholder and Chairman of the Group, disposed of his entire shareholdings in the Company on 28 August 2001. A subsidiary of Wang On Group Limited ("Wang On"), a company listed on the Hong Kong Stock Exchange, purchased approximately 29% of the issued share capital of the Company disposed of by Mr. Leung and became the single largest beneficial shareholder of the Company. Subsequently, Mr. Leung and Wang On also advanced loans of approximately HK$8.8 million and HK$24.9 million, respectively, to the Group which were principally utilised for the repayment of the Group's bank borrowings and as working capital of the Group.

On 28 August 2001, Mr. Tsang Pui Sing, Aloysius, Mr. Leong Weng Kin and Mr. Wai Chi Kin, Franklin resigned from the board of directors and Mr. Tang Ching Ho ("Mr. Tang") and Mr. Chan Chun Hong, Thomas ("Mr. Chan"), the Chairman and an executive director of Wang On, were appointed as executive directors. On the same date, Mr. Siu Man Ho, Simon and Mr. Yuen Chi Choi, Simon were appointed as independent non-executive directors of the Company and Mr. Tang and Mr. Chan were elected as the Chairman and the Managing Director of the Group, respectively.

Mr. Peter Francis and Mr. Garnet Harrison resigned as non-executive directors on 14 September 2001 and 17 September 2001, respectively.

On 28 September 2001, Mr. Cho Wing Mou was appointed as an additional independent non-executive director.

FINANCE AND LIQUIDITY

As at 30 September 2001, the Group's bank and other borrowings (including the CB Loan) amounted to approximately HK$72.9 million (31 March 2001: HK$56.4 million). The increase was principally due to the loans advanced from Wang On Group and Mr. Leung mentioned above.

The gearing ratio, defined as the ratio of the total borrowings to total assets of the Group, as at 30 September 2001 was approximately 61% (31 March 2001: approximately 51%). The Group had pledged its land and buildings, investment properties and plant and machinery to a bank to secure general banking facilities granted to the Group.

During the period ended 30 September 2001, the Group's transactions were mainly carried out in Hong Kong dollars, US dollars and Renminbi. As Hong Kong dollar is pegged to the US dollar and the Renminbi received from retail sales in the PRC are utilised for the operation of the Group's factory in Dongguan and expansion of the retail business in the PRC, the Group has no significant currency exposure. Borrowings in the form of trade finance, overdrafts and other loans were all denominated in Hong Kong dollars with interest being charged on floating rates. The 9.5% CB Loan of approximately £2.8 million was denominated in the British pound sterling. Given the stability of the British pound sterling during the period, the Group's exposure to currency fluctuations was minimal.

During the period under review, the Group did not use any financial instruments for hedging purposes and the Group did not have any hedging instrument outstanding as at 30 September 2001.

9.5% CONVERTIBLE LOAN STOCK

As disclosed in the Company's announcements dated 26 October 2001, 13 November 2001, 22 November 2001 and 26 November 2001, statutory demands were made by a trustee of the convertible loan stockholders (the "Trustee") for the full payment of principal and interests outstanding (which amounted to approximately £2.8 million) as the Company did not make payment of the relevant interest payable on 30 September 2001.

The directors have been advised by legal counsel that the statutory demands made were defective and on 22 November 2001 an originating summons was issued against the Trustee whereby a court declaration as to the invalidity of the demands was sought.

On 26 November 2001, an application for a petition for winding up of the Company was issued by the Trustee and the relevant application is scheduled to be heard on 6 February 2002.

The directors are currently seeking legal advice to oppose the application for winding up the Company.

Meanwhile, the directors are currently in discussion with the convertible loan stockholders with a view to restructuring the convertible loan stock and are pursuing opportunities for possible new sources of funds to enhance the Group's liquidity.

MANAGEMENT AND STAFF

As at 30 September 2001, the Group had over 900 employees. Staff requirement is regularly monitored with reference to the actual needs of the Group. Remuneration packages, which comprise salaries, provident fund contributions and medical benefits, are periodically reviewed based on market trends, performance appraisals, working experience and industry practice and then approved by the executive directors. Discretionary share options are granted to employees according to their contribution to the Group. All directors' remuneration and share option packages must first be recommended by the Remuneration Committee.

PROSPECT

In view of the difficult economic environment and the current dispute with the Company's loan stockholders, the directors are actively looking for possible new sources of funding and new business opportunities in order to turnaround the difficulties currently faced by the Group.

DIRECTORS' INTERESTS IN SHARES AND RIGHTS TO ACQUIRE SHARES

(a) Interests in Shares

As of 30 September 2001, none of the directors, chief executive and their associates held, beneficially or non-beneficially, any of the shares issued by the Company or any of its associated companies which were required to be recorded in the register of directors' interests in compliance with Section 29 of the Securities (Disclosure of interests) Ordinance ("SDI Ordinance").