

On behalf of the Board of Directors (the "Board"), I am pleased to present to our shareholders our annual results for the year ended 31st March, 2002.

Results

The Group's turnover and loss attributable to shareholders for the year amounted to HK\$220.8 million (2001: HK\$240.4 million) and HK\$33.6 million (2001: HK\$31.5 million), respectively.

Dividend

No interim dividend was paid during the year under review (2001: Nil). The directors do not recommend the payment of a final dividend (2001: Nil).

Review of Operations

Assembly of Watches and Manufacture of Cases ("OEM Business")

Due to the difficult market situation, the turnover of the Group's OEM business for the year under review dropped by approximately 5% as compared with that of the previous year. The decline was mainly attributable to the drop in sales to customers in European countries and India. Although the terrorist attack on the United States of America ("US") on 11th September, 2001 had adverse effects on the Group, the satisfactory sales to US customers in the first half of the financial year compensated for the decline in Group's sales to the US market during the second half of the financial year.

The operating loss of this division for the year ended 31st March, 2002 was HK\$1.3 million compared to that of HK\$10.7 million for the previous year. The improvement was chiefly attributable to the streamlining of production facilities in the PRC and price reduction from suppliers.

Retail of Complete Watches and Bags in the PRC

As explained in the review of operations in the interim report for the six months ended 30th September, 2001, the Group has been restructuring the existing brand portfolio of this division. In order to stimulate customers' purchase desire, the Group offered more discounts throughout the current financial year, leading to a deterioration of gross profit margin compared to the previous year. Faced with a continuing difficult economic environment, the Group will continue to devise new sales promotion programs to improve the business of this division and work out new cost-cutting measures.

During the year ended 31st March, 2002, the Group opened 28 new TimeZone outlets and 17 new Q.bags outlets while 19 TimeZone outlets and 27 Q.bags outlets were closed. As at 31st March, 2002, there were 112 TimeZone outlets and 37 Q.bags outlets in operation, covering more than 20 cities in the PRC.

Acquisition of Wai Yuen Tong Medicine Company Limited ("Wai Yuen Tong")

Due to the depressed market conditions faced by the Group in its existing businesses of manufacturing and sale of watches and bags and with a view to strengthen its financial condition, after the year end, on 22nd May, 2002, the Group entered into an agreement with Wang On Group Limited ("Wang On") and Town Health

International Holdings Company Limited to acquire an effective interest of approximately 99.79% in Wai Yuen Tong at HK\$220 million. The acquisition was completed on 9th July, 2002 and 13.6 billion ordinary shares at HK\$0.01 per share and convertible notes of HK\$84 million were issued to satisfy the consideration for the acquisition. Details in relation to the acquisition were contained in a circular to the shareholders dated 17th June, 2002.

9.5% Convertible Loan Stock

As mentioned in the Company's announcement dated 7th February, 2002, the Company, the trustee for the stockholders (the "Trustee"), Rich Time Strategy Limited ("Rich Time") and Dynamission Investments Limited ("Dynamission"), both wholly owned subsidiaries of Wang On, reached an agreement in February 2002 in respect of the settlement of a winding up petition against the Company. Pursuant to this settlement agreement, Dynamission acquired £2,270,710 (equivalent to approximately HK\$25.3 million) of the outstanding amount of convertible loan stock, following which the winding up petition against the Company was dismissed and Dynamission became interested in approximately 98.95% of the total outstanding amount of the convertible loan stock.

As mentioned in the Company's announcement dated 25th March, 2002, with a view to improving the financial stability of the Group, a 18-month unsecured term loan of HK\$32 million at the interest rate of prime plus 2% p.a. was granted by Rich Time, which was principally used for the repayment of the convertible loan stock. Relevant notice was then sent to the Trustee in relation to the repayment. Up to the date hereof, holders of £2,752,167 of the convertible loan stock responded and were repaid in full, leaving £4,649 outstanding.

Cancellation of Listing Status on the London Stock Exchange Limited ("LSE")

Due to the low transaction volume on the LSE and with a view to saving legal and administrative costs for the Company, on 1st March, 2002, a notice was given by the Company to the UK Listing Authority for the cancellation of the listing of the Company's shares and convertible loan stock. On 3rd April, 2002, the relevant listing status was cancelled.

Liquidity

With a view to enlarging the Company's shareholder base and improving the financial position of the Group, two placements of new shares were made by the Company on 3rd April, 2002 and 29th April, 2002, which together raised net proceeds of approximately HK\$5.2 million, which were used as the Group's general working capital.

As at 31st March, 2002, the Group's total borrowings amounted to approximately HK\$81.8 million which included an amount of HK\$65.75 million due to Rich Time, of which HK\$0.9 million was repaid in May 2002 and HK\$64.85 million had been restructured into a 3 years term loan at an interest rate of 2% above the prime rate.

The Group's gearing ratio, defined as the ratio of the total borrowings to total assets of the Group, as at 31st March, 2002 was approximately 98% (2001: approximately 51%). The Group has pledged its land and buildings, investment properties and plant and machinery to a bank to secure general banking facilities granted to the Group.

The Group's contingent liabilities as at 31st March, 2002 amounted to approximately HK\$0.9 million (2001: HK\$2.1 million).

Management and Staff

As at 31st March, 2002, the Group had over 600 employees, over 90% of whom were located in the PRC. 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 selected employees according to their contribution to the Group.

Future Prospects

Due to the difficulties faced by the Group's watches manufacturing and bags retail business, the Board has been exploring new business opportunities which will generate revenue and cashflow streams to the Group and the acquisition of Wai Yuen Tong was a major step.

In view of the increasing trend in health awareness and the popularity of traditional Chinese medicine and herbs, the Board believes that this area of business will gradually grow to become the principal business of the Group. The Board has therefore proposed to put a resolution to the shareholders at the forthcoming annual general meeting that the name of our Company be changed to "Wai Yuen Tong Medicine Holdings Limited".

The Board will continue to closely monitor our watches manufacturing and bags retail business and will keep the shareholders informed of its status.

Appreciation

I would like to take this opportunity to express my gratitude to all my fellow directors and staff for their contribution to overcome the difficulties of the Group during the year.

By Order of the Board

Tang Ching Ho
Chairman

Hong Kong, 19th July, 2002