



Management Discussion and Analysis

FINANCIAL REVIEW

For the year ended 31 March 2006 ("Year 2006"), the Group recorded a turnover of approximately HK\$394.1 million from continuing and discontinued operations (2005: HK\$513.7 million). To geographically delineate the Group's business from that of its Singapore-listed parent company, Sincere Watch Limited, the Group discontinued sales to Taiwan and Thailand after its listing in Hong Kong. Other than the discontinued operations, the decline in turnover was also attributable to the volatility of the exchange rate of Swiss Franc versus Hong Kong dollar, which prompted watch dealers in Hong Kong to defer their purchases in the first half of the year.

Profit attributable to shareholders declined slightly by 4.4% to approximately HK\$49.9 million (2005: HK\$52.2 million). Administration expenses increased mainly due to the one-off listing expenses of HK\$5.6 million. As a result of the Group stepping up advertising and promotional activities in Hong Kong and China to push for further growth in the region, distribution costs increased by approximately HK\$4.6 million. Earnings per share were HK 14.1 cents (2005: HK 17 cents).

The Group's gross margin of the continuing operations improved to approximately 29.9% from last year's 27.3%. This was largely the result of the strengthening Hong Kong dollar that led to decrease in average purchase price over the year.

Liquidity, Financial Resources and Gearing Ratio

As at 31 March 2006, the Group maintained a healthy financial position with cash and bank deposits of approximately HK\$144.4 million and no outstanding bank loan.

The Group generally finances its operations and investing activities with internally generated cash flows. As at 31 March 2006, the Group's audited net current assets

amounted to HK\$182,832,000 (2005: HK\$61,423,000), including cash and bank deposits of HK\$144,350,000 (2005: HK\$123,590,000). The Group did not have any bank borrowings or any banking facilities as at 31 March 2006 (2005: Nil). There were nil consolidated total non-current liabilities and the Group's gearing ratio was nil at both years. The Directors believe the Group's existing financial resources are sufficient to fulfill its commitments and current working capital requirements.

Capital Structure and Foreign Exchange Exposure

The unutilized proceeds from IPO Share Subscription together with working capital generated were mainly placed in Hong Kong Dollar short-term interest bearing deposits with banks in Hong Kong. Amongst the fund, the Group placed approximately HK\$28.4 million in equivalent Swiss Francs dollar short-term interest bearing deposits with banks in Hong Kong as at 31 March 2006.

The incomes of the Group are mainly dominated in Hong Kong Dollar and the Group has adequate recurring cash flow to meet the working capital requirement. The Group has overall realised and unrealised currency exchange gain amounted to approximately HK\$20.5 million compared with overall realised and unrealised currency exchange loss amounted to approximately HK\$6.7 million last year. The Group adhered to a prudent policy on financial risk management and the management of currency and interest rate exposures.

The Group do not have any banking facilities for the year.

Charge on Assets

The Group did not have any charge on their assets as at 31 March 2006 (2005: Nil).

Significant Acquisition

The Group did not have any significant acquisition in the year.



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FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

There was no definite future plan for material investments and acquisition of material capital assets as at 31 March 2006.

Contingent Liabilities

The Group did not have any contingent liabilities as at 31 March 2006 (2005: Nil).

Staff and Employment

As at 31 March 2006, the Group employed a total work force of 45 staffs including directors (2005: 40). Employees were paid at market remuneration with discretionary bonus and medical benefits, mandatory provident fund scheme and necessary training. The Group has been constantly reviewing staff remuneration incentive to ensure it is competitive with relevant industries.

Use of Proceeds from the Company Initial Public Offering

The net proceeds from the Company's initial public offering in October 2005 were approximately HK\$94.5 million, after deduction of related listing expenses. During the year ended 31 March 2006, these usage of proceeds were in accordance with the future plans and prospects set out in the Company's listing prospectus dated 30 September 2005 (the "Prospectus") and within the limit of the net proceeds.

BUSINESS REVIEW

The Group is the sole distributor of Franck Muller in Hong Kong, Macau and the PRC and has established Franck Muller as one of the most desired and popular fine watch brands in the luxury watch segment. Leveraging on its success and the long term relationship with Franck Muller, the Group has expanded its brand portfolio and now carries four other brands, namely de Grisogono, European Company Watch, Pierre Kunz and Cvstos.

The Group has a large network of independent watch retailers through which the luxury timepieces are distributed. As at 31 March 2006, the Group distributed through 24 retail outlets operated by 10 independent watch dealers in Hong Kong and Macau. In addition to its dealer distribution network and as part of its brand management strategy, the Group operates three single-brand boutique shops: two in Hong Kong and one in Shanghai. Retailing under the brands of Franck Muller and de Grisogono, these boutiques located in prime shopping areas showcase the full collection of these very exclusive brands.

At the beginning of 2006, the Group launched a new brand, Cvstos, a high performance luxury watch of contemporary cutting edge design. Heeding market enthusiasm to the new brand, the Group expects to include more watch retailers and outlets to expand the distribution network for the new and exciting brand.



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Affluence in China is as predictable as the country is populous. As incomes escalate from an increase in commercial and economic activities, the appreciation for the finer things in life, like fine watches, will inevitably rise. Sincere Watch has over the years built a reputation in Hong Kong and Shanghai as a purveyor of the world's finest brands, and is well positioned to tap into the expanding network of upper and middle class consumers looking to own watches of quality and prestige. Furthermore, our partnership with several leading retailers in these markets reinforces our presence there, and increases our dominance as a key market player. In 2005, Sincere Watch (Hong Kong) Limited was listed on the Hong Kong Stock Exchange, elevating the company into a new, exciting realm, and providing the resources by which it can grow in a vibrant market.



FRANCK MULLER NIGHT WITH JACKIE CHAN

Jackie Chan's Shanghai Circuit Charity Weekend from 2 to 4 September 2005 got a boost from Franck Muller when the latter showed its support to the Hollywood star by sponsoring a charity gala called "Franck Muller Night". The gala dinner was held on 3 September 2005 at Grand Hyatt Shanghai. In an event filled with glamorous people, Franck Muller tailor-made a unique timepiece – a Franck Muller Tourbillon with the logo of a dragon at 12 and words "Jackie Chan – Unique Piece" engraved on the case back – for auction at the dinner, raising more than RMB2 million with other items. The money raised went to those in need in Xin Jiang.





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INTRODUCTION OF PIERRE KUNZ IN HONG KONG

Pierre Kunz is a brand that is renowned for revolutionary designs in the world of watch making. Its creativity in complex designs and retrograde functions was launched in Hong Kong in September 2005 with a luncheon for selected media and VIPs. Master watch maker, Mr. Pierre Kunz, was present at the event, and shared his splendid collection exhibiting hallmarks of sobriety, readability and beautifully crafted mechanisms.



BROWNY BROWN BY DE GRISOGONO

Swiss luxury jeweller and watch house, de Grisogono, unveiled their new Brownie Brown collection at the de Grisogono boutique at IFC Mall in Hong Kong. Continuing their commitment to outstanding design and exceptional quality, debonair creator-Fawaz Gruosi has created the Brownie Brown collection using a form of gold treated in a process that is unique to de Grisogono. This collection, which includes bracelets, rings, earrings, pendants and watches, was unveiled over an exclusive dining experience in the opulent surroundings in the boutique.





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SINCERE WATCH HONG KONG'S IPO CELEBRATIONS

Sincere Watch (Hong Kong) Limited enters a new era as a publicly listed company and the organization threw a 2-day party to celebrate the milestone. Held at the Island Shangri-la Hotel, the venue was decorated with showcases displaying famous marques from Sincere, including de Grisogono, Franck Muller, ECW and Pierre Kunz. The first day witnessed the announcement of the initial public offering while the second day was used to celebrate the landmark event with investors, dealers and friends of the company.





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FRANCK MULLER'S GALA DINNER

The exclusive dinner was held on 10 March 2006 at the Grand Hyatt Hong Kong was one for the record books. Luminary guests from all over were invited to partake in an evening of grandeur and entertainment held under the auspices of the celebrated watch brand. Mr. Franck Muller was on hand to officiate the event that welcomed the glitterati of socialites and celebrities. In addition to the top-level cuisine and wines served at the dinner, an international renowned group of performers from around the world was recruited to provide the evening's entertainment. The invited artistes included those from the award-winning musical, *Chicago*, as well as dancers who performed a variety of dance sequences. Modern ballet accompanied by violin and saxophone, and a cell-block tango in time with piano pieces highlighted the evening's unique programme. As a climax, a tap dance routine and acrobatic display brought the house down, while helping guests remember an indelible evening.





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PROSPECTS

Statistics released by the Federation of the Swiss Watch Industry FH, as at March 2006, indicated that the markets of Hong Kong and the PRC ranked second and seventh in terms of import value of Swiss watches. The value of Swiss watch import in the two markets increased by approximately 16% and approximately 52% respectively as compared with 2005, which signified the continued growth in the markets' demand for Swiss watches.

Building on its brand management capabilities, the Group will continue to strengthen its position as a specialist in luxury watch distribution. With an experienced brand management and marketing team, we expect to continue to add new brands to our portfolio, open new boutiques and also expand our distribution network. While Hong Kong remains our major market, we will boost our presence in the region by continuing to organize innovative marketing and promotion campaigns.

With the local economy posing a robust outlook and consumer sentiment continuing to strengthen, the Group is highly optimistic of its distribution and retail business in Hong Kong. In 2006, the Group will open a new Franck Muller boutique shop in Kowloon. It also plans to add more outlets and appoint additional watch dealers to further expand its distribution network for all its brands.

The Macau's economy continues to expand rapidly driven by its fast growing gaming and hospitality sector and continuous surge in visitor arrivals from China. To tap this growing market, the Group has already appointed two dealers, and a brand new Franck Muller boutique shop will be opened at the Landmark Hotel in 2006. The Group is looking to further strengthen its presence in Macau in the future.

In the PRC, the Group's focus will be on Franck Muller. It will continue to build market presence by stepping up advertising and promotion events to enhance awareness of the brand, especially amongst the expanding upper and middle class. The Group will open a Franck Muller boutique in Beijing in 2006 and also plans to add outlets to its distribution network in the PRC during the year. To fuel expansion in the region, the Group will explore opportunities of forming strategic alliances with potential partners.

Boasting proven ability in building brand equity, the Group is looking to expand its luxury watch brand portfolio. Following the successful launch of Cvstos, the Group expects to introduce a new watch brand in 2006.