

## **INTERIM DIVIDEND**

The Board does not recommend payment of an interim dividend for the six months ended 30th September, 2001 (2000: HK\$nil).

## **FINANCIAL REVIEW**

The unaudited consolidated turnover of the Group amounted to approximately HK\$87 million (2000: HK\$58 million) for the period under review, representing an increase of approximately 49% when compared with the previous period. The profit attributable to shareholders amounting to approximately HK\$2 million for the period under review, compared to a net loss of HK\$0.5 million for the previous period. Earnings per share was HK0.62 cent for the period under review, compared to loss per share of HK0.2 cent for the previous period.

The External Auditors has reviewed the interim results in accordance with the Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" that issued by HKSA, which in turn constitutes the main part of Audit Committee's review on this Interim Report.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at the 30th September, 2001, the Group maintained a net current asset position of approximately HK\$140 million (restated as at 31st March, 2001: HK\$130 million) which includes short-term bank deposits, bank balances and cash of approximately HK\$69 million. The sound liquidity position of the Group was reflected in the current ratio (current assets/current liabilities) of 3.38 times as at 30th September, 2001 (as at 31st March, 2001: 3.37).

## **CAPITAL STRUCTURE**

Except the convertible notes (the "Notes") of Swiss Francs ("SFr.") 11,800,000 at par, which are due in 2010, the Group is free from any bank borrowings. Interest charged on the Notes is 0.875% per annum and interest expenses for the period under review was HK\$0.2 million. There is also an option granted to the holders of the Notes to cause the Company to redeem in United States dollars ("US\$") at a fixed exchange rate of SFr.1.00 = US\$0.67933 any Note on 23rd February, 2008 at a redemption price of 117.375% of its principal amount together with interest accrued up to the date of redemption. Amortization of premium on redemption charged for the period under review was HK\$0.5 million.

## RISK OF FOREIGN EXCHANGE FLUCTUATION

Apart from the Swiss operation, the Group's assets employed and operating activities are mainly denominated in Hong Kong dollars, United States dollars and Reminbi. Given the prevailing peg system between Hong Kong dollars and United States dollars and the road ahead for the Reminbi to become an international currency though are bright, is long and winding. Accordingly, the Group has no significant exposure to foreign exchange fluctuation. Nevertheless, the Board would closely observe the China's economic reform and development as well as Hong Kong fiscal policies and implement any effective programs to minimize any foreign exchange exposure.

## PLEDGE OF ASSETS

As at 30th September, 2001, the general banking facilities granted to the Group of HK\$21 million (as at 31st March, 2001: HK\$40 million) were secured by certain properties of carrying values of HK\$17.2 million (as at 31st March, 2001: HK\$17.8 million). The banking facilities granted have not been utilized at both reporting dates.

## SHARE OPTION SCHEME

Pursuant to the Share Option Scheme (the "Scheme") of the Company adopted on 15th September, 1997, the Board is authorized to grant options to eligible employees, including executive directors, of the Company and its subsidiaries, to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares and 80% of the average of the closing prices of the Company's shares on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of grant of the options. The maximum number under the Scheme shall not exceed 10% of the issued share capital of the Company, in respect of which options may be granted, excluding any shares issued pursuant to the Scheme from time to time.

As at 30th September, 2001, the particulars of the share options granted to employees working under employment contracts are as follows:

Number of options outstanding	Date granted	Exercise price
1,400,000	24th September, 1997	HK\$1.00

No option was granted, exercised, lapsed or cancelled during the period under review. The options granted are exercisable for a period of ten years commencing from the date the option scheme is adopted.

## **EMPLOYEE**

The Group now has around 390 employees, about 90% of which are working in the PRC, mainly for the watch retailing business. The Group has, in accordance with applicable laws, established pension funds in the PRC. Employee remuneration including commission amounted to approximately HK\$11 million (2000: HK\$10 million). The Group reviews remuneration packages from time to time and normally annually. Besides salary payments, other staff benefits, include contributions to an employee provident fund, medical insurance and a discretionary bonus scheme. The Group also finances continuing education of staff in recognized associations.

## **OPERATIONAL REVIEW**

### **Watch Trading and Retailing**

The aggregate turnover from the sales of complete watches excluding the Swiss Office during the period under review amounted to approximately HK\$83 million, representing an increase of 53% compared with HK\$54 million for the previous period. The reasons for the increases are mainly due to fourfold:

Firstly, the effect of the joint co-operation with the brands to redecorate the shop image which provide a comfortable environment for shopping and a warm feeling of elegance and harmony to customers.

Secondly, various joint marketing campaigns with the brands such as the exhibition for the pre-launch of new collection in our retail chain.

Thirdly, the decentralization of the various sales and marketing programs that launched to each local market and customers' sector. The management information provided by our point of sales system offer a strong support, other than internal control functions, to these marketing plan and sales campaign which in turn can react to the market and customers' preference promptly.

Fourthly, the business policy to develop and expand the after-sales services business sector which itself not only attains steady stream of revenue but at the same time enhances customers' loyalty as well as their satisfaction and strengthen our business relationships with various brands.



The aforesaid reasons contribute the competitive edges of the Company which after adopting the effective pricing and costing tactics, improve our overall performance during the period under review.

During the intervening period up to the date of this report, 5 outlets are increased and they are located in various major cities including Urumqi and Wuhan.

It is the business strategy to seize any new prime locations so as to capture any change of flow of passers-by especially the targeted customers and give more resources to those efficient and effective outlets in different regions over the Mainland China.

As at the date of this report, the retailing network comprises about 22 outlets covering the major cities over the Mainland China including Urumqi, Harbin, Shenyang, Beijing, Shanghai, Chengdu, Chongqing, Wuhan and Guangdong.

### **Properties Investment**

Gross rental income generated from investment properties and land and buildings increased by 35% to approximately HK\$2.3 million for the period under review (2000: HK\$1.7 million). The increase is in line with the Board's policy to lease out any unoccupied area so as to maximize the return to the Company. In order to minimize the exposure of property downturn and solidify long-term business relationships with tenants, it is the Board's policy to lease out the investment properties in medium term.

### **Securities Investment**

As at 30th September, 2001, the market value of the Group's securities portfolio other than those, which are intended to be held on a continuing basis, is approximately HK\$27 million (as at 31st March, 2001: HK\$29 million). During the period under review, there is no change in the securities portfolio. A net unrealized loss on revaluation of approximately HK\$1.8 million has been charged to the income statement in accordance with the benchmark accounting treatment in relation to investments in securities that recommended by HKSA.

### **Swiss Operation**

The turnover during the period under review amounted to approximately HK\$2.6 million, representing an increase of 54% compared with HK\$1.7 million for the previous period. During the period under review, it recorded a minor loss amounted to approximately HK\$0.2 million (2000: HK\$1.6 million). The Group continues its financial support to the Swiss watch brand and to focus on cost control. JUVENIA S.A. is free of any bank borrowings and the Board is of view that JUVENIA S.A. will not be a financial burden to the Group.

### **Offshore Programming Service Provider**

On 16th May, 2001, the Company acquired 54% of the issued share capital in KB Quest Holdings Limited ("KBQ") for an aggregate consideration of HK\$42 million which was satisfied by the allotment and issue of 42 million shares at a price of HK\$1.00 per share. The Acquisition was in line with the Board's policy of not directly utilizing the Group's existing cash resources to fund its expansion into the information technology sector. The details of the Acquisition are set out in the Company's circular dated 24th May, 2001 and 2001 annual report.

KBQ is principally engaged in the sale and design of contract software programs for business customers in the information technology industry.

Loss recorded during the period since the Acquisition is approximately HK\$2.5 million, which is attributed mainly to the initial start-up costs and was funded by the internal resources of KBQ. Although the Board remains positive about the long term prospects of the information technology business in a knowledge based economy, the operating environment of KBQ has become highly challenging amidst the uncertainty surrounding the world economy caused by the terrorist attack of 11th September, 2001 on America. The Board will monitor closely the performance of KBQ and will make appropriate adjustment to its business strategy as required.



## **PROSPECTS**

In view of China's entry into the World Trade Organization (the "WTO") on 11th December, 2001, the Mega Development Project in the Western Region and the Olympic 2008 are all expected to generate huge business opportunities in the Mainland China, which is a tremendous attractiveness to both local and international businessmen and investors. The anticipated active economic activities in various sectors, in turn, are expected to translate into greater demand for the watches, premiums and other gifts. The Board anticipates that our existing proven result retail chain and our China-trade expertise are in well position to capture these market growth and opportunities.

Nevertheless, the Board also anticipates that there are many incoming competitors from both local and foreign counter players in the near future in line with PRC's local economic reform and the gradual reduction of tariffs and other trade restrictions as a result of China's entry the WTO. As a result, the competition will be very keen which in turn directly put pressure to our existing gross profit margin.

Given the availability of the proven result retail chain over the Mainland China, on one hand the Group continues to diversify the high end watches to other European brands watches that target to the high end wealth consumers and other premiums and gifts items. On the other hand, the Group plans to enter into a second phase of accelerating its own brand named watch business such as ACCORD established in 1979, a fashion brand in the Asia-Pacific region and JUVENIA since 1860, our Swiss prestigious brand so as to provide wider range of products choices to our customers.

The new design with the theme of "City Life" of ACCORD, has been exhibited in the Hong Kong Watch & Clock Fair 2001 in September 2001 at Hong Kong Convention & Exhibition Centre. The preliminary marketing budget for ACCORD brand for the coming 12 months is around HK\$5 million.

### **Other business opportunities**

The Group will keep on looking for good investment opportunities to strengthen the Group's profit in the context of recurring income, income base and magnitude of income. Nevertheless, the Group continues to adopt a proactive approach in its business expansion.