INTRODUCTION

The Company is an investment holding company, with core business of watch trading and retailing in the Mainland China. The Company also invests in Information Technology ("I.T.") business for diversification to high growth business segment. The Company continues its practice to adopt a proactive approach in its business strategy.

FINANCIAL REVIEW

The turnover of the Group was approximately HK$189 million (2001: HK$146 million) for the year under review, representing an increase of approximately 29% when compared with the previous year.

The Group's profit attributable to shareholders for the year ended 31st March, 2002 was approximately HK$152,000 compared to net profit of HK$6.7 million for the previous year. Earnings per share was HK 0.05 cent compared to earnings per share of HK 2 cents for the previous year.

SEGMENT INFORMATION

Detailed segment information in respect of the Group's turnover and contribution to operating profit is shown in note 6 to the financial statements.

LIQUIDITY AND FINANCIAL RESOURCES

During the year under review, the Group continues to maintain a solid financial structure and generally finances its operation from internal financial resources.

At 31st March, 2002, the Group enjoyed a net current asset position of approximately HK$140 million (2001: HK$130 million) which includes short-term bank deposits, bank balances and cash of approximately HK$60 million (2001: HK$69 million).

The liquidity of the Group as evidenced by the current ratio (current assets/current liabilities) was 3.18 times, was maintained at a healthy level.

Due to healthy recurring stream of cash inflow generated from watch retailing business, the Group has maintained a good liquidity position throughout the year under review.

CAPITAL STRUCTURE

Except the convertible notes of Swiss Francs ("SFr.")11,800,000 at par, which are due in 2010, the Group is free from any bank borrowing. Interest charged on the notes is 0.875% per annum and is waived for a period of five years with effect from 23rd February, 1996 to and including 22nd February, 2001. Interest expenses charged to the income statement for the year ended 31st March, 2002 was HK$379,000 (2001: HK$377,000). There is also an option granted to the holders of the notes to cause the Company to redeem in United States dollars ("US$") 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 and amortization of premium on redemption charged for the year ended 31st March, 2002 was HK$972,000 (2001: HK$972,000).

RISK OF FOREIGN EXCHANGE FLUCTUATION

Apart from the Swiss operation, the sales, purchases and operating expenditure of the Group are mainly denominated in Renminbi. The Group's assets employed are mainly denominated in Hong Kong dollars, United States dollars and Renminbi. The Renminbi assets are hedged against the Renminbi liabilities in the ordinary course of operating cycle. Since the Hong Kong dollar is pegged to the US dollar, the Group considers that its foreign exchange risk is minimal. Nevertheless, the Board would closely observe the China's economic reform and development as well as Hong Kong's fiscal policies and implement effective programs to minimize any foreign exchange exposure.

CONTINGENT LIABILITIES

At 31st March, 2002, the Company had contingent liabilities as follows:

(1) The Company has given corporate guarantees of HK$11,000,000 (2001: HK$40,000,000) to banks to secure general banking facilities granted to the Group. No bank facilities utilized at 31st March, 2002 and 2001.

(2) The Company is the co-defendant with 2 Executive Directors in a representative action (the "Action") commenced by Galmare Investment Limited on 27th April, 2001, suing on behalf of itself and all other shareholders, other than the Executive Directors. As the Company is only named as "nominal defendant", no significant adverse financial effect to the Company is anticipated up to the date of this report. The Board shall inform the shareholders by press announcement, should there be any significant progress or major development in the litigation, which affects the interests of the shareholders in due course.

(3) The Company is also named as defendant in another legal action. The Claimant claimed the debt of approximately HK$1,700,000 which was arrived at during the restructuring of the Company around the years 1996 to 1997, and full provision has been provided then. An out-of-court settlement of HK$800,000 has been reached on or around 12th July, 2002.

Save as disclosed herein, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

PLEDGE OF ASSETS

At 31st March, 2002, general banking facilities granted to the Group of HK$11,000,000 (2001: HK$40,000,000) were secured by certain properties as follows:

	2002	2001
	HK$'000	HK$'000
Carrying value of pledged assets		
Investment properties	**14,900**	15,600
Leasehold properties	**1,600**	2,280
	16,500	17,880

ACQUISITION OF A SUBSIDIARY

On 16th May, 2001, the Company acquired 54% of the issued share capital of KB Quest Holdings Limited ("KBQuest") (the "Acquisition") 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 I.T. sector.

The details of the Acquisition constitute a discloseable transaction for the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), are set out in the Company's circular dated 24th May, 2001.

OPERATIONAL REVIEW

Retailing Business in the PRC

The aggregate turnover from the sales of complete watches excluding the Swiss office during the year under review amounted to HK$180 million, representing an increase of 33% compared with HK$135 million for the previous year. The reasons for the increase are mainly due to five folds:

The utmost important reason is the excellent reputation of our retail chain network in name of TIME CITY, which has been built up by the Company through long period of presence in the market. It has a great competitive advantage over the other players as TIME CITY engages in the high-end luxury retail business, while counter-feits are common in the market.

The excellent status of our retail chain in the market is evidenced by the various awards granted by the local regulatory bodies such as Commerce Commission, Industrial and Commerce Bureau, Pricing Bureau, Consumer Association and Product Quality Supervision and Inspection Institute. The various awards obtained by our shops include Display Prize, Feature Prize, Tourism Consumption Recommendable Spot, Trustworthy Designated Regulatory Unit, Certificate For Watch Repair Rates (Class A), Trustworthy After-sales Services Unit, Trustworthy Pricing Unit, Integrity Unit and Quality Assurance Unit.

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

Thirdly, various joint marketing campaigns with the brands have been carried out in TIME CITY, for instance the exhibitions for the pre-launch of new collections and special limited editions.

Fourthly, 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 offers a strong support, other than internal control functions, to these marketing plans and sales campaigns which in turn can react to the market and customers' preference promptly.

Fifthly, 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.

OPERATIONAL REVIEW (Continued)

Retailing Business in the PRC (Continued)

The aforesaid reasons accompanied with the adoption of the effective pricing and costing tactics maintain the Company's competitive edges in the market during the year under review.

Nevertheless, as anticipated by the Board, TIME CITY faced keen competition from the local and foreign players during the year under review. The decrease in gross and net profit margins for the year under review was stated under the heading "PROSPECTS".

At the date of this report, the retailing network comprises about 29 outlets covering the major locations over the Mainland China including Wulumuqi, Harbin, Shenyang, Pan Jin, Beijing, Shanghai, Chengdu, Chongqing, Wuhan and Guangdong.

Securities Investment

During the year under review, the already weak global securities market was hit severely by the tragedy of the attacks on the United States ("US") on 11th September, 2001. A net unrealized loss on revaluation of approximately HK$1 million has been charged to the income statement in accordance with the benchmark accounting treatment in relation to investments in securities recommended by the Hong Kong Society of Accountants. During the year under review, there is no change in the component of the Group's securities investment portfolio and interest and dividend income generated was approximately HK$133,000. The market value of the portfolio recorded a decrease from HK$29 million to HK$28 million as at 31st March, 2002.

Properties Investment

Gross rental income generated from investment properties increased by 18% to approximately HK$4 million during the year under review. The increase was in line with the Board's policy to lease out any unoccupied area so as to maximize the return to the Group. In order to minimize the exposure of property downturn and solidify long-term business relationship with tenants, it is the Board's policy to lease out the investment properties in medium term.

Swiss Operation

During the year under review, the Board continued to monitor the reduced scale of our Swiss operation and it recorded a minor loss amounted to approximately HK$0.6 million (2001: HK$1.3 million). It is the Board's policy to continue its financial support to JUVENIA since 1860, our Swiss prestigious brand. JUVENIA MONTRES S.A. is free of any bank debts and the Board is of the view that JUVENIA MONTRES S.A. will not be a significant financial burden to the Group.

OPERATIONAL REVIEW (Continued)

Programming Service Provider

Year 2001 was indeed a challenging year to the hi-tech industry. An already weak global economy was further hampered bitterly by the September 11th terrorist attacks on the US. The hi-tech sector was hit especially hard with the result being substantial shrinkage of both the US and Hong Kong markets for systems integration and outsourced programming services. Fortunately, our joint venture with the Shanghai Forward Group via Shanghai Forward KBQuest Inc. provided a source of skilled programmers and gave KBQuest a substantial cost-savings edge over most of its competitors. With the US economic recovery taking shape slowly but surely, KBQuest is expecting an increase in interest in its services. In addition, KBQuest continues to strengthen its management team, streamline operations and reduce expenses to enhance its competitiveness and productivity while aggressively pursuing new customers in the US and Hong Kong.

KBQuest continues to concentrate on outsourced programming services and systems integration as its primary business. However, in order to increase its productivity and profit margin, KBQuest has standardized several software components that can be reused in similar projects. In addition, KBQuest is building standalone software products to serve unique niche markets.

(1) Programming Services

Despite the economic downturn in 2001, the US market for outsourced programming services remains very promising as companies are forced to cut development costs even for core business applications. KBQuest is trying to build up a reputation and its customer list includes world-class telecom companies, an internationally renowned cancer and genetics research center, hotels, manufacturing companies and multinational corporations.

KBQuest continues its efforts to build depth and domain expertise with two major areas of programming services taking shape: applications based on biometrics and bioinformatics. KBQuest is working with leading biometrics technologies including fingerprint recognition systems.

(2) Software Components and Products

To provide better services to its customers and to increase its productivity, KBQuest has built several core applications that can be sold as standalone products or as components in larger enterprise solutions. Below are product summaries:

a. *Ukulele*

Ukulele is a simple yet scalable and robust Website Content Manager that empowers product and service providers to rapidly create and maintain detailed Website content and to facilitate applications allowing their customers to find, compare and select product solutions based on detailed criteria. Ukulele is designed to accommodate all types of products with its unique attribute-building system and is being marketed to retail shops, catalog houses and Website design operations.

OPERATIONAL REVIEW (Continued)

Programming Service Provider (Continued)

(2) Software Components and Products (Continued)

b. *Human Resources Management System ("HRMS")*

HRMS is a Web-based payroll, attendance management and reporting solution for organizations of all sizes. Employee identification in the HRMS is based on both smart card and fingerprint recognition, guaranteeing the most accurate attendance information while virtually eliminating opportunities for employee fraud. It enables the customers to manage their human resources and payroll functions with defined roles and access rights from an internal network or over the internet. HRMS provides cutting-edge efficiency and accuracy while remaining a very cost-effective human resources solution.

c. *Online Project Tracking System ("OPTS")*

OPTS is designed and implemented to integrate collaboration and resource sharing tools into KBQuest's web site for the benefit of its partners, clients, and staff. OPTS allows multiple development teams spread across the world to work together over a seamless electronic workspace. It gives the project teams and the clients 24x7 access to password-protected resources such as project schedules, documents and feedback/communication boards. It is designed to give the customers better control over all stages of the development cycle from requirements to release. The result is a software solution with a shorter development cycle and higher rate of customer satisfaction.

Although the initial revenue is slim for the year under review, the Board remains positive about the long term prospects of the I.T. business in a knowledge based economy.

Employee

The Group now has around 420 employees (2001: 332 employees), about 93% of which are working in the PRC, mainly for the watch retailing business. The increase was mainly to cope with the business expansion during the year under review. The Group has, in accordance with applicable laws, established pension funds in the PRC. Total staff costs, including Directors' emoluments, amounted to HK$26.1 million (2001: HK$20.2 million). The Group reviews remuneration packages from time to time and normally on yearly basis. Besides salary payments, other staff benefits, include contributions to Mandatory Provident Fund, medical insurance, a discretionary bonus scheme and share option scheme, the Group also facilitates continuing education of staff in recognized associations.

As part of the cost control measures to enhance the Group's overall productivity, more stringent salary adjustments have been implemented to Hong Kong staff since 1st April, 2002 such as the 10% salary reduction and the entitlement of the 13th month salary is based on the performance achieved and on discretionary basis.

It is the Group's human resources policy to provide equal opportunity and high motivation to all its employees.

PROSPECTS

Retailing Business in the PRC

Retailing business, where our expert and strength lie, generates significant revenue and profit to the Company each year. It is the core business of the Company.

Based on the changes of market conditions, the Board anticipates that our leadership position in the market will have more and more challenges and difficulties encountered because of the reasons below:

Firstly, along with the PRC's entry to World Trade Organization, the anticipated huge market in the Mainland China attracts many foreign investors to participate. Among them, there are also many retailing business players. They have large capital resources and sound track records. These foreign new comers are strong competitors because they are equipped with high standard of management and expertise in the retailing business.

Secondly, in anticipation of the keen challenges from foreign players, many domestic retailers increase their sizes and market shares by means of merger, acquisition and alliance. They copy and update the standard of quality and management. They also adopt an aggressive pricing strategy. As a result, the overall market profit margin drops accordingly.

Thirdly, in order to enhance their prominent presence in the PRC market, more and more brands open their own outlets such as boutiques and more gradually away from the retail chain. As a result, the range of brands available to our retail chain decreases accordingly. On one hand, TIME CITY invites various prestigious brands to carry out advertising and promotion campaigns jointly so as to attract them to stay with our chain as long term business partnership. On the other hand, TIME CITY will source new products from Europe to replenish our product mix.

Despite the unfavorable reasons stated above, the Board is ready to face the challenge ahead because the huge market in the Mainland China still provides good opportunities for our own brands, ACCORD and JUVENIA since 1860. If success is attained, this would generate revenue to the Company. The Company will therefore devote more resources and launch more advertising and promotion campaigns in the coming year.

Moreover, the Company continues to source and introduce more new commodities such as lighters, gifts and jewelry to TIME CITY so as to provide more choices to our customers.

Programming Service Provider

Although the initial revenue during the year under review is slim, KBQuest is trying to concentrate its efforts on building a stronger management team and efficient operations structure across the three markets i.e. Hong Kong, the US and the Mainland China in anticipation of a better business climate in 2002. In view of the worldwide difficulties encountered in the I.T. industry, the Board does not take any optimistic expectation on KBQuest in the coming year. Yet the Board is fully aware that the characteristics of I.T. business is high risk but high growth and has long term prospects. The Board has a stated policy to minimize the cash investment in the I.T. business. Therefore, the result of KBQuest is not expected to have any significant effect on the overall liquidity of the Group.