MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

The Company is an investment holding company, with core business of watch trading and luxury products retailing. It is the Company's practice to adopt a proactive approach in its business development strategy.

FINANCIAL REVIEW

Turnover

For the year ended 31st March, 2006, the turnover of the Group increased from approximately HK$255.7 million to approximately HK$330.2 million, an increase of approximately HK$74.5 million (represents 29%) when compared with last year. The increase was mainly attributed to the increased turnover recorded in the Watch Trading and Retailing business segment amounting to approximately HK$77.7 million which was offset by the decreased turnover recorded from Property-related business segment amounted to approximately HK$2.7 million during the year under review.

Profit for the Year

For the year ended 31st March, 2006, the profit of the Group increased from approximately HK$4.4 million to approximately HK$5.4 million, an increase of approximately HK$1 million when compared with last year. The Group recorded earnings per share of 1.62 Hong Kong cents (2005: 1.31 Hong Kong cents) during the year under review.

However, the profit in 2005 included a net other income amounted to approximately HK$11 million arising mainly from the valuation and its subsequent disposal of property interest in Dongguan and the final receipt of consideration from the disposal of another property interest in Dongguan. The details of the aforesaid non-recurring events have been set out in the annual report for the year ended 31st March, 2005. Pursuant to the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited, the relevant details of the disposal of the former interest have also been disclosed in the Company's Circular dated 7th February, 2005. Had this been excluded, the profit of the Group increased by approximately HK$12 million during the year under review when compared with last year.

Distribution Cost

The Distribution Cost of the Group for the year ended 31st March, 2006 increased by approximately HK$16.5 million to approximately HK$105 million. The increase was mainly due to the increases in salaries and commission, rental expenses and advertising and promotional expenses incurred during the year. They are increased in line with the increased turnover recorded during the year and further fuelled by the escalated operating costs under the great inflationary pressure in China.

Administrative Expenses

The Administrative Expenses of the Group for the year ended 31st March, 2006 decreased by HK$3.7 million from approximately HK$14.5 million to HK$10.8 million when compared with last year. The decrease was mainly due to a net exchange gain recorded during the year under review and the fact that the disposal of the property interest in Dongguan last year led to less administrative expenses incurred from such segment this year. In addition, the Group has adopted numerous cost control measures which have successfully stabilized the administrative expenses throughout the year.

FINANCIAL REVIEW (continued)

Other (Expenses)/Income, Net

The Other Expenses, Net of the Group for the year ended 31st March, 2006 amounted to approximately HK$1 million. It is mainly comprised of, among other things, the impairment loss recognized in respect of goodwill amounting to approximately HK$1 million. The recognition of the aforesaid impairment loss is in accordance with the Hong Kong Accounting Standards issued by the Hong Kong Institute of Certified Public Accountants. The Other Income, Net of the Group for the last year was mainly arising from the valuation and its subsequent disposal of property interest in Dongguan and the final receipt of consideration from the disposal of another property interest in Dongguan. The details of the aforesaid non-recurring events have been set out in the annual report for the year ended 31st March, 2005. Pursuant to the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited, the relevant details of the disposal of the former interest have also been disclosed in the Company's Circular dated 7th February, 2005.

Other Operating Expenses, Net

The Other Operating Expenses, Net of the Group for the year ended 31st March, 2006 increased by approximately HK$6.6 million, from approximately HK$10 million to HK$16.6 million. The increase was mainly due to the increased allowance for slow-moving inventories recorded during the year. The increased allowance is mainly attributable to the increased inventory merchandised so as to meet the increased turnover throughout the year and the depreciation rate for slow-moving inventory is accelerated pursuant to more stringent inventory provision policy adopted during the year under review. The more stringent inventory provision policy in turn reflects the fact that the keen market competition exerts great pressure on the product life cycle, pricing as well as profit margin of those slow-moving inventories distributed through our retail chain.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to maintain a solid financial structure and basically finance its operation from internal financial resources throughout the year. As at 31st March, 2006, the Group maintained a net current asset position of approximately HK$194.1 million (2005: approximately HK$194.6 million) which includes short term bank deposits, bank balances and cash of approximately HK$117.2 million (2005: approximately HK$120.5 million). The liquidity of the Group, as evidenced by the current ratio (current assets/current liabilities) was approximately 4.0 times (2005: approximately 4.2 times), was maintained at a healthy level.

CAPITAL STRUCTURE

Except for the convertible notes issued on 22nd February, 1994 (the "Notes"), the Group is free from any bank borrowings.

As at 31st March, 2006, the Convertible Notes that issued by the Company are still outstanding is amounted to Swiss Francs 11,800,000.

CAPITAL STRUCTURE (continued)

The main terms of the Notes under the original note agreement as amended by the note moratorium on 19th February, 1997 are as follows:

- The maturity date of the Notes was extended for a period of 10 years after their contractual maturity from 23rd February, 2000 to 23rd February, 2010;
- Interest on the Notes would be waived for a period of five years with effect from 23rd February, 1996 to and including 22nd February, 2001; and
- The rate at which interest is charged on the Notes would be reduced from $1^3/_4\%$ per annum to $^7/_8\%$ per annum for a period of nine years with effect from 23rd February, 2001.

Under the original note agreement, there was also an option granted to the holders of the Notes to cause the Company to redeem in US$ at a fixed exchange rate of SFr.1.00 = US$0.67933 any note on 23rd February, 1998 at a redemption price of $117\ ^3/_8\%$ of its principal amount together with interest accrued up to the date of redemption. The date of put option was extended for a period of 10 years after their contractual maturity from 23rd February, 1998 to 23rd February, 2008. The estimated aggregate amount of cash for the redemption of all the Notes is approximately HK$73 million. The Board takes the view that the note holders are very likely to exercise the put option and redeem all the Notes on 23rd February, 2008.

RISK OF FOREIGN EXCHANGE FLUCTUATION

The People's Bank of China announced on 21st July, 2005 that the exchange rate of United States Dollars against the Renminbi be adjusted to 8.11, translating to a 2% appreciation in Renminbi. Subsequently there is around 1% further appreciation in Renminbi. Income derived by the Group is mainly denominated in Renminbi whilst most of the purchases and expenditures are denominated in Renminbi except for certain purchases and expenditures which are settled in Hong Kong Dollars and Swiss Francs.

The positive impact from Renminbi appreciation was alleviated by the foreign exchange loss resulted from revaluation of the Group's foreign currency balance, which comprised of mainly United States Dollars and Swiss Francs. During the year under review, the exchange rate of Hong Kong Dollars against Swiss Francs is appreciated from 6.5031 to 5.9825, representing a 8% appreciation which had led to an exchange loss amounting to approximately HK$2 million. All in all, the Group recorded net exchange gain of approximately HK$2.6 million for the year ended 31st March, 2006.

The Group's assets are mainly denominated in Hong Kong Dollars, United States Dollars and Renminbi. The Renminbi assets are hedged against Renminbi liabilities in the ordinary course of operating cycle. Since the Hong Kong Dollars is pegged to the United States Dollars, the Group considers that the net adverse foreign exchange risk is not significant up to the date of this report.

The Board would continue to observe closely the Mainland China's economic reform and development and its fiscal policy regarding revaluation of Renminbi as well as Hong Kong's fiscal policies and implement effective programs to minimize any foreign exchange exposure, if necessary.

CONTINGENT LIABILITIES

At 31st March, 2006, the Company had contingent liabilities as follows:

(1) The Company has given corporate guarantees of HK$11,000,000 (2005: HK$11,000,000) to banks to secure general banking facilities granted to the Group. As at 31st March, 2006, bank guarantees given in lieu of utility deposit amounting to approximately HK$404,000 (2005: HK$404,000).

Except the aforesaid banking guarantees utilized during the year under review, the unutilized general banking facilities are acted as standby nature for potential business development of the Group's subsidiaries.

(2) The Company is a nominal defendant of a derivative action brought by Galmare Investment Limited ("Galmare") with 2 Executive Directors on 27th April, 2001, suing on behalf of itself and all other shareholders, other than the Executive Directors. Galmare is seeking a declaration that the acquisition of the information technology business in May 2001 is not in the best interests of the Company or the Shareholders and other appropriate declarations or further ancillary reliefs. As the Company is only a nominal defendant to a derivative action (the "Action"), the role of the Company is limited i.e. not to take any active role in the proceedings and any damages recovered in such Action are paid to the Company directly. Pursuant to the Court Order made on 4th January, 2002, the Company is granted a leave to dispense with the filing and service of a defence in relation to the Action. Further to the subsequent Court Orders made on 3rd and 4th September, 2003, the Company successfully denied the Plaintiff's application regarding claiming the Company to indemnify their legal costs incurred in this Action. On 31st March, 2006, the 1st and 2nd defendants consent to the Court upon Galmare's request to bring in Miss Leung Miu King, Marina, who is the sister of the 1st defendant and the non-executive director of the Company, to be the 4th defendant of the case so as to assist the defence. Given such development has no any effect on the role of the Company as nominal defendant and its duty to indemnify the plaintiff's legal costs incurred in this Action, the Board does not anticipate any significant adverse financial effect to the Company 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.

Save as disclosed herein, so far as the Directors are aware, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration or claims which is, in the opinion of the Directors, of material importance and no litigation or claims which is, in the opinion of the Directors, of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

PLEDGE OF ASSETS

As at 31st March, 2006, certain of the Group's investment properties, leasehold properties and prepaid lease payments with carrying value of HK$1,335,000 (2005: HK$7,700,000), HK$8,451,000 (2005: HK$4,239,000) and HK$5,007,000 (2005: HK$2,792,000) respectively were pledged to secure the general banking facilities to the extent of HK$11 million.

As at 31st March, 2006 and 2005, the Company has not pledged any assets.

OPERATIONAL REVIEW

Watch Trading and Retailing

During the year under review, the aggregated turnover for the watch trading and retailing business segment excluding the Swiss office amounted to approximately HK$325.1 million, representing an increase of 31.2% compared with approximately HK$247.7 million last year.

The segment result for the year recorded a profit amounted to approximately HK$16.5 million (2005: approximately HK$7 million). The result is after the inclusion of an exchange gain amounted to approximately HK$3 million. The positive impact from Renminbi appreciation, which has been resulted upon the appreciation of Renminbi with respect to the accounts payable prior to the appreciation, was however alleviated by foreign exchange loss resulted from revaluation of the Group's foreign currency balances as at 31st March, 2006 which comprised of mainly Swiss Francs and United States Dollars.

During the fiscal year, the PRC economy maintained its strong growth momentum with a year-on-year GDP growth of 9.9%. The PRC government implemented macroeconomic control measures to curb overheat investment in the sectors, aggressively shifting investments in fixed assets to domestic consumption with an aim of stimulating economic growth. Consumer price index (CPI) level of the PRC increased by 1.8% in 2005 from the previous fiscal year. The expedited growth of the PRC economy slowed down to a steady pace, while consumption power of urban and suburban citizens increases along with further economic development and a faster rate of growth of income. National disposal income per capita of urban citizens was RMB10,493. Taking no account of price factors, this represented an effective growth of 9.6%, which was 1.9 percentage points higher when compared with the previous fiscal year.

The increase in aggregated turnover of the segment during the year under review is mainly attributable to the following two folds:

(a) the rising consumerism, expansion of the middle class and strive for elegant and lifestyle; and

(b) the Group's dedicated efforts in enhancing its brand awareness and strengthening customer loyalty as well as efforts to strengthen and centralize the development and management of the Group's own brands.

However, with a combination of rapid economic development, increased consumption power of the residents, expanding middle class population and the anticipated promulgation of policies to stimulate domestic consumption, the PRC retail market exhibited a compelling potential that further attracts a substantial horde of foreign-invested and domestic market players.

Therefore, even though the overall market increases during the year under review, the market is filled with opportunities and challenges.

Under such fierce competition, the escalating operating costs such as rental and salary expenses as well as advertising and promotional expenses in the market pose high pressure and great challenge to all retailers. The focus of retail chain competition in the future will be controlling costs. The Group continues to allocate more resources to improving management and enhancing efficiency.

OPERATIONAL REVIEW (continued)

Watch Trading and Retailing (continued)

In addition, the implementation of official regulations by the Chinese authority may cause a slower but more controllable growth. This may in a medium and long term lead to a healthy economic development. It is expected that the effect of the recent introduction of consumption tax of 20% for the luxury watches will be set off partially by the pricing policy of the Brands. However, the Group would closely monitor the overall net effect of such additional tax on the coming sales and bottom line of the segment and revise our business strategies accordingly.

During the year under review, the Group continuously enhances the competitive edges of our retail chain by redecorating the shop image, expanding the shop area and enriching the product assortment.

Moreover, the Group continues to participate the joint co-operative scheme that run by the international brands to provide upgraded quality and value-added services to our customers.

The building up of corporate brand image and consumers' loyalty is an important part of the Group's business policy for increasing its competitive edge.

During the year under review, the Group continued to strengthen the promotion of the Group's own watch brands namely, ACCORD, a Swiss made, fashion and lifestyle brand as well as JUVENIA, a Swiss made, prestigious and elegant brand.

With the continued rapid economic growth, the demand for good quality and affordable pricing watch, where our ACCORD is positioned, is particularly great. During the year under review, the Group incessantly enhanced the quality and diversified the product series of our ACCORD such as the sport model of "Monte Carlo Chronograph" as well as classic and elegant model of "Helvetia Ultra thin", and developed new products of different levels to suit the tastes of different consumers. The marketing and sales team of ACCORD is taking measures to enhancing the shopping environment and merchandising display. The latest image displayed has brought a fresh impression that was well received by consumers. In the long run, this could help to strengthen our brand image and recognition.

In the coming future, the Group continues to make a concerted effort in expanding the sales network of ACCORD, primarily in the PRC market by opening sales and administration office in major cities such as Beijing, Shanghai and Shenyang.

For JUVENIA, a prestigious brand with 146 years of history, the Group has re-launched selected series of our JUVENIA to Hong Kong market during the year under review. The market gave the products an enthusiastic reception, giving it a successful debut with additional assistance of our new marketing concept "Divine Inspiration". In addition, the recent opening of a regional office in Taiwan enables us to capture the first hand knowledge of the local market and facilitates our planning for the future development of Taiwan market, including devising our own branding, product development strategy and network expansion plan.

In order to seek expansion of sales, the Group will strengthen its market research and sales divisions, so as to respond and adjust the sales strategy quickly according to market changes to cope with the rapid development of our target markets.

OPERATIONAL REVIEW (continued)

Properties Investment

Gross rental income generated from properties investment for the year ended 31st March, 2006 amounted to approximately HK$1 million (2005: approximately HK$3.7 million). The decrease in the gross rental income received during the year is because of the fact that the Group has realized its major properties investment in Dongguan last year. The details have been disclosed in the annual report for the year ended 31st March, 2005 and the Company's Circular dated 7th February, 2005.

Swiss Operation

During the year under review, our Swiss Operation recorded less than HK$100,000 minor loss.

With strategic marketing and promotion campaign launched during the year, the overall growth in sales recorded is up in a steady pace in particular those in Asia Pacific region.

Swiss operation will continue to recruit more professionals to further enhance our competitive edge in the keen competition market. It is anticipated that more competitive products of high standard of craftsmanship will be developed and designed through the joint contribution of our market research and product development team.

06' Basel Fair is also a milestone of our recent achievements. Revamped with our new luxury image, both the media and the market gave our new products as well as the booth design an enthusiastic reception.

Looking forward, the Group prepares to invest more resources in the product development, sales and marketing, all aims to better serve our customers and markets and to support the future growth which in turn in line with the interests of the Company and its shareholders.

Programming Service Provider

During the year under review, KBQuest continues to concentrate on offshore application programming services for its Hong Kong and US customers. Meanwhile, KBQuest starts developing software products in addition to providing programming services.

The US IT market has turned around and become active again. However, the outsourcing market is further dominated by Indian companies. The notion of India being the market leader of technology is deeply rooted and is well accepted by US corporations. Our survival is hinged on identifying niche vertical application domains where the Indian companies do not have advantages. In that direction, we have been concentrating on two vertical niche markets, namely, the bio-medical and e-Learning systems. In each of these two spaces, KBQuest has established strong domain expertise and relationships with major corporations and organizations.

The IT market in Hong Kong is also recovering. We are encouraged with recent sales increase. Unfortunately, the cost of conducting business in Hong Kong has been increased rapidly due to the recovery of the property market. In addition, we observe significant staff turnover in the past 6 months. We leverage on the increased productivity of our Shanghai joint venture with the Forward Group who are more active in our programming services and product development.

OPERATIONAL REVIEW (continued)

Programming Service Provider (continued)

During the year under review, KBQuest has won two awards namely MAX 2005 Business Experiences Winner Award and MAX 2005 Mobile Experiences (Nokia Symbian OS) Finalist Award from Adobe Systems Incorporated and one award namely LINUX & OSS Best Solution Award from Linuxpilot magazine respectively as a result of the hard work of our staff.

For the year under review, the aggregate segment revenue and result from the programming service amounted to approximately HK$2.1 million (2005: approximately HK$2.6 million) and a loss of approximately HK$2 million (2005: approximately HK$2.4 million). When compared to previous year, the loss is narrowing because of the extra cost saving measures are being implemented by the management throughout the year under review.

KBQuest has maintained to adopt stringent measures to keep the cost down and to improve efficiency.

Looking ahead, KBQuest continues to establish new alliance partnership with companies in the e-Learning and bio-medical markets. In addition, KBQuest has developed numerous software products and ready to launch our marketing campaigns. KBQuest is continuing to explore cooperation with companies to jointly market these products.

EMPLOYEE

As at 31st March, 2006, the Group has around 543 employees about 87.1% of which are working in the PRC, mainly for the watch retailing business. Apart from the frontline colleagues, staffs of different discipline of professionals such as product design, sales and marketing and brand development have been recruited during the year under review so as to cope with the business development. The Group has complied with all the labor laws or regulations in respective jurisdiction. The Group has, in accordance with applicable laws, established pension funds in the PRC. Total staff costs, including commission but excluding Directors' emoluments for the year ended 31st March, 2006 was amounted to approximately HK$40 million (2005: approximately HK$34 million). In order to maintain the Group's staff cost at a competitive level, the Group reviews remuneration packages including commission scheme from time to time and normally on yearly basis. Besides salary payments, other staff benefits including 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.

The Board regards the human resources as invaluable asset for the Group's current achievement and future development. It is the Group's human resources policy to provide equal opportunity and high motivation to all its employees.

PROSPECTS

Looking into 2006, it is expected that the market players esp. the foreign-invested retailers in the PRC retail market will maintain their growth momentum, and the keenest competition will be seen.

During this period of growth, which will be filled with opportunities and competition, the market players will expand in scale and geographical coverage through launch of more flagship shops, mergers and acquisitions and restructuring. Consolidation is the key to the success of acquisition and mergers. As competition intensifies, more emphasis will be attached to the optimization of outlet network and consolidation of underperformance shops, which will be a trend in the development.

PROSPECTS (continued)

In order to maintain a competitive advantage amid the keen competition, the Group believes that it is important to cultivate strong brand loyalty and recognition of our retail chain and own brand products. The Group will continue to implement a series of strategies such as advertising, renovating the shops, joint co-operative programs with international brands and participating in the international brands' public functions so as to promote the corporate image of the retail chain.

The Group will continue to build upon and modify the position of our own brands JUVENIA and ACCORD within the PRC market and will cautiously seek opportunities to expand to other countries in the Asia Pacific region. The Group will seek to strengthen the JUVENIA and ACCORD brand in the PRC market through a number of initiatives including the updating more image displays, the expansion of our talented design team and the after-sale services team, and the continuation of advertising and promotional activities.

Having considered the outcome of pilot launch of certain jewellery brands in our retail chain and the recent introduction of consumption tax for jewellery, the Group would reconsider the strategies and concepts of promoting jewellery products in the PRC market. It is advisable that a smaller scale of jewellery products will be introduced in our retail chain.

The Group acknowledges that quality of services is crucial to the success of the Group. The Group will continue to implement a series of training programs including in-house training and joint training programs with international brands to improve the standard of services and product knowledge of the frontline teams of the retail chain.

The Group recognizes the importance of implementation of a tailor-made integrated system for inventory control and management information. The Group will continue to update the system so as to enable the management of the Group to respond to the changing market demand promptly and maintain an appropriate level and variety of inventory at each outlet, aiming at improving the overall operational efficiency.

Despite the great threats of the escalating operating costs and the keen competition, the mega trends of the resumption of the domestic spending in the Mainland China remain steady on course. The Group will cautiously review the expansion pace and consolidation scheme of the existing retail shops and tighten cost controls aiming at achieving steady business growth in the retail market.

Looking forward, the Group will continue to focus on our core business i.e. Watch Trading and Retailing. It also focuses on brand building, which is believed to bring positive development and benefits to the Group in the long run.