Management Discussion and Analysis

INTRODUCTION

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

FINANCIAL REVIEW

The turnover of the Group was approximately HK$246 million (2002: HK$189 million) for the year under review, representing an increase of approximately 30% when compared with the previous year.

The Group's loss attributable to shareholders for the year ended 31st March, 2003 was approximately HK$32 million compared to net profit of HK$152,000 for the previous year. Loss per share was HK9.68 cents compared to earnings per share of HK0.05 cent for the previous year.

Included in the reported losses of approximately HK$32 million was an impairment loss recognized of approximately HK$21 million in respect of goodwill for the previously acquired subsidiary. The above charge has no impact on the Group's operations, cash flows, business development as well as revenue.

The increases in the inventories and debtors are attributed to the increase in turnover during the year. Due to the Company's internal prudent accounting method, there are increases in the general provisions of inventories and debtors during the year under review. Nevertheless the Group's debtor turnover ratio and inventory turnover ratio are maintained at a reasonably level.

SEGMENT INFORMATION

Detailed segment information in respect of the Group's turnover and contribution to operating loss is shown in note 5 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, 2003, the Group maintained a net current asset position of approximately HK$136 million (2002: HK$140 million) which includes short-term bank deposits, bank balances and cash of approximately HK$68 million (2002: HK$60 million).

The liquidity of the Group, as evidenced by the current ratio (current assets/current liabilities) was 3.6 times (2002: 3.2 times), was maintained at a healthy level.

As a result of the recurring stream of cash inflow generated from watch retailing business, the Group maintained a good liquidity position throughout the year under review.

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 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, 2003 was HK$379,000 (2002: HK$379,000). There is also an option granted to the holders of the Notes to cause the Company to redeem in United States dollars ("US$") 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. Amortization of premium on redemption charged for the year ended 31st March, 2003 was HK$972,000 (2002: 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 Swiss operation accounts for less than 6.0% of the Group's total activities. 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 dollars is pegged to the United States dollars, the Group considers that its foreign exchange risk is minimal. Nevertheless, the Board would closely observe the Mainland 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, 2003, the Company had contingent liabilities as follows:

(1) The Company has given corporate guarantees of HK$11,000,000 (2002: HK$11,000,000) to banks to secure general banking facilities granted to the Group. No banking facilities utilized at 31st March, 2003 and 2002.

(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 is not in the best interests of the Company or the Shareholders, a declaration that the above Executive Directors are precluded from regarding the conditions precedent to completion from having been complied with, damages against the Executive Directors and other appropriate declarations or further ancillary reliefs. As the Company is only joined as a party to these proceedings as a nominal defendant to a derivative 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. 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

At 31st March, 2003, certain of the Group's investment properties and leasehold properties with carrying value of approximately HK$13,030,000 (2002: HK$ 14,900,000) and HK$1,535,000 (2002: HK$ 1,601,000) respectively were pledged to secure the general banking facilities to the extent of HK$11,000,000.

At 31st March, 2003 and 2002, the Company had not pledged any assets.

OPERATIONAL REVIEW

Watch Trading and Retailing

The Group focuses on the market of Mainland China which recorded continued economic growth (with average GDP growth of 7.7 per cent in 1997 to 2002 and a 7 per cent is forecast for 2003) since the year 1997. Though the global economy had been hampered bitterly by series of events such as Asian financial crisis and terror attack, China market offers charming business opportunities with stimulation from both the government as well as the private sector.

The aggregate turnover from the retail sales of watches excluding the Swiss office during the year under review amounted to HK$210 million, representing an increase of 17% compared with HK$180 million for the previous corresponding year. The following are the reasons for our improvement in the retail sales:

Firstly, during the year under review, our retail chain network in name of TIME CITY has consolidated its operations and enhanced its productivity by periodically reviewing the performance and profitability of each outlet. More resources have been allocated to upgrade those good performance outlets and increase their earning capacity. For those under-performance outlets, tailor-made business tactics are formulated and addressed proactively to market environment. The business policy to establish a proven result retail distribution network by weeping out poor result outlets and giving more resource to efficient and effective outlets is the prime reason for the increases in the turnover recorded. Those newly renovated outlets made good contribution to the Group's profitability.

Secondly, the sale and marketing team in the TIME CITY offered high professional standards of service, nice and pleasant attitudes and demonstrated their thorough watch technical knowledge to our customers. This high quality of service is the result of our corporate culture, which values human resources and provides attractive rewarding packages to our key personnel. The Company keeps on investing in the long-term staff training and development.

Nevertheless Year 2003 is a difficult year to TIME CITY, which faced very keen competition from both the local and foreign players during the year under review. As a result of the keen competition flooding in the market, the gross profit margin is decreased and the operating costs and overheads are increased. The main reasons are listed below:

Firstly, many foreign business players enter into the mainland market as they target the post-WTO huge mainland market. These foreign new competitors are very professional because they are equipped with high standard of management expertise in the retailing business and strong capital resources. In order to sustaining the key employees and the valuable manpower, TIME CITY offers competitive compensation packages to our front line team members and it is one of the main reasons to explain for the operating staff costs maintained at a high level.

Secondly, during the year under review, in responses to the keen challenges from foreign players, many domestic retailers updated their standard of quality and management by imitating. They further adopted an aggressive pricing and discount strategy so as to maintain or increase their market shares. This is the major reason for the drastic decrease in the profit margin in the whole industry.

OPERATIONAL REVIEW (cont'd)

Watch Trading and Retailing (cont'd)

Thirdly, through the continuous and high standard of efforts in promoting our name of TIME CITY, evidenced by the various awards granted by the local regulatory bodies such as Trustworthy After-sales Services Unit, Trustworthy Pricing Unit, Integrity Unit and Quality Assurance Unit, the excellent reputation of our TIME CITY gains the well recognition in the high end consumer market. Such goodwill has recently been damaged by the infringement of our trademark "TIME CITY" in many provinces by various sole proprietors of the retail shops. Although we have taken all the necessary legal actions to protect the Company's intangible assets, it is expected that these kind of improper competitions will inevitably affect our business growth.

Securities Investment

During the year under review, the Group had redeemed those debt securities upon maturity and a gain of approximately HK$0.6 million was realized. As at 31st March, 2003, a net unrealized loss on revaluation of approximately HK$0.9 million in relation to the remaining portfolio of the Group's securities investment has been charged to the income statement in accordance with the benchmark accounting treatment that recommended by HKSA. As a result, the market value of the Group's securities portfolio other than those, which are intended to be held on a continuing basis, was changed from HK$28 million as at 31st March, 2002 to approximately HK$6 million as at 31st March, 2003.

Properties Investment

Gross rental income generated from investment properties amounted to approximately HK$5 million for the year under review represented an increase of 25%, compared with HK$4 million for the previous year. 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 major tenants, it is the Board's policy to lease out the investment properties in medium term.

Swiss Operation

During the year under review, our Swiss office recorded a profit amounted to approximately HK$2 million (2002: loss of HK$0.6 million). The implementation of marketing campaign that launched during the year under review has enhanced the awareness of our watch brand JUVENIA since 1860 globally, in particular in the Mainland China. The enhanced awareness of the brand is evidenced by the increased sales recorded during the year when compared with the previous year.

Programming Service Provider

The Group acquired its interest in KB Quest Holdings Limited ("KBQuest"), a programming service provider in May 2001 (the "Acquisition") to enable the Company to diversify its existing Mainland China business i.e. watch retailing and trading into the business with high growth potential i.e. the business of specialized software programming. The acquired professional team capitalizes on the technical know-how and innovation gained from experience with leading institutions in the US and the joint venture with Shanghai Forward Group, an associate of Fudan University brings synergy to the operations of KBQuest.

OPERATIONAL REVIEW (cont'd)

Programming Service Provider (cont'd)

During the year under review, KBQuest continues to concentrate on outsource programming services and systems integration as its primary business and standardizes several software components that can be reused in similar projects as well as provides standalone software products to serve unique niche markets so as to increase its productivity and profit margin. The software components and products developed includes Human Resources Management System and Online Project Tracking System. However in order to cope with more proactively the unexpected tough economic factors surrounding the hi-tech industry, KBQuest slowed down its development pace during the year under review.

Year 2003 was another difficult year to the Information Technology ("IT") industry. The IT sector, which had been seriously hit by the post "September 11" terrorist attacks on the US. This was evidenced by the substantial shrinkage of both the US and Hong Kong markets for systems integration and outsource programming services. The US wars against Iraq and Afghan, as well as the military engagement in the Middle East inevitably raise further hardship for the global economic recovery despite the prolonged low interest rate in US.

Operated under such difficult market conditions, the Group recorded an operating loss of HK$ 6 million in its IT business during the year under review. Following its pre-determined prudent strategy, the Company adopted a stringent and rational measures to reduce cost, streamline processes and enhance efficiency during the year under review. The operations of IT business are totally financed by internal resources of the acquired subsidiary i.e. KBQuest.

The Board is fully aware that the characteristics of information technology business is inherent high risk but the anticipation of the global market, in particular, the Mainland China market, for computer software is colossal in the longer term perspective. In order to mitigate such inherent high-risk nature, the Board has predetermined the following measures, among other things, in the business policy as below prior to the entering into the IT industry:

(a) The Company acquires the interest of KBQuest by mean of equity financing. Accordingly the Acquisition has not drawn on the Group's existing financial resources for the settlement of the acquisition consideration; and

(b) The Compnay adopts prudent and conservative approach in daily operations with the adoption of stringent and rational measures to reduce cost, streamline processes and enhance efficiency; and

(c) The Board closely monitors its performance and then makes appropriate adjustment to its business investment strategy, including its accounting policies as required.

OPERATIONAL REVIEW (cont'd)

Programming Service Provider (cont'd)

As a result of the unexpected economic difficulties, in particular, after the anti-terror attack, the information technology industry in US was very disappointing in the market. Furthermore, the outbreak of Severe Acute Respiratory Syndrome ("SARS") in China further weaken the confidence of the US IT customers to outsource their jobs to the China-based programming companies. Therefore the Board takes the view that it is for the interests of the Company to make appropriate adjustment to its business strategy based on the prudence practice. Following the true and fair accounting principles as at 31st March, 2003, the Group recognize impairment for goodwill in respect of the above interest acquired, after taking into account of, among other things, the prevailing market conditions, global economic uncertainties and an independent valuation prepared by a professional valuer, of approximately HK$21 million so as to furnish a prudent position of such investment to our Shareholders.

Such impairment has no impact on the operations, cash flows, business development as well as revenue of both KBQuest and the Group.

Employee

The Group now has around 460 employees (2002: 420 employees), about 92.5% of which are working in the PRC, mainly for the watch retailing business. The increase in staff employed was mainly to cope with the business expansion in the Mainland China during the year under review. The Group has, in accordance with applicable laws, established pension funds in the PRC. Total staff costs, including commission but excluding Directors' emoluments, amounted to HK$27 million (2002: HK$22 million). Apart from the increase in staffing for the business expansion, the increase of staff costs was mainly because of the increased sales transacted during the year under review, which in turn led to increases in commission payable. In order to increase the productivity of out retail chain, the commission scheme will be subject to review on periodical basis and the commission payable, in turn, is anticipated to be decreased or maintained in a competitive level.

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.

Nevertheless, the Company continues to enhance its overall productivity by adopting cost control measures including the 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 conditional on the performance achieved and on discretionary basis.

The Group engages in various lines of businesses such as information technology business, brands business in which human talent are the most important value of the business. 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

Watch Trading and Retailing

Amid the consistent global economic downturn and uncertainties in the China market, we still see China as our major market. The Closer Economic Partnership Arrangement ("CEPA") that signed on 29th June, 2003, which originally aims at stimuli and enhances Hong Kong economy recovery, in theory significantly lowers the barriers for Hong Kong enterprises to tap the mainland market.

CEPA, by eliminate the import tariffs to the mainland on a host of goods made in Hong Kong, allows most Hong Kong companies to sell high value-added products across the border. According to the outlines of CEPA, a total of 273 products including clocks, jewelry and watches will enjoy zero import tariffs from 1st January, 2004. Therefore the Board anticipates that competition will become more and more intensive in the coming years.

Furthermore, restrictions on tourists entering from Gangdong province will be progressively lifted from 28th July, 2003 giving Hong Kong's struggling tourist sector a much-needed boost which in turn unavoidably channels more and more mainland customers to Hong Kong retail shops directly from the retail chain in the mainland. According to recent statistics released, there is 50% increase in the number of tourists from the mainland to about 6.8 million during the year under review . Of these, about 40% were Guangdong residents. The average tourist from the mainland spent more than HK$ 5,000 on each visit to Hong Kong. Therefore TIME CITY like other mainland retailers, also faces further competition with the Hong Kong shops in the coming years.

During the SARS period, consumer spending, tourist industry and business travel over the Mainland China in particular the infected cities such as Beijing and Guangzhou have dropped drastically. It is expected that the Company's coming interim result will be hit by such adverse effect but the full extent of impact is yet to be quantified at this moment.

PROSPECTS (cont'd)

Programming Service Provider

Despite the unexpected drastic economic downturn in the past 2 years, in particular the post "September 11" event, the demand for the outsource programming services in the US and other markets still remains attractive to most IT companies operated in Asia. Moreover, the global trend for outsourcing programming services over the firm's carry out in-house itself is irreversible. Though the IT markets in mainland is still premature, its future potential is bright. Therefore the Company takes cautiously to penetrate into the China market so as to seek business opportunities such as forming alliance and joint venture with other Chinese players.

KBQuest's established linkage to the pool of IT professional team headed by Shanghai Forward Group, enables the Company to capture the coming business opportunities in the future when the hi-tech economy boom later, in particular in Mainland China.

Nevertheless the Board will continue to closely monitor performance of its IT business according to its predetermined risk mitigation measures. It anticipates that the operations of KBQuest would not have any significant adverse effect on the existing core business of the Group.

Other Matter

Based on the Company's solid financial position and the cash generating capacity from its retail business, the Board will keep on looking for good investment opportunities to strengthen the Group's profitability and maximize its shareholders' value. It is the Company's policy to adopt a cautious but proactive approach in its business expansion and diversification with main focus on Mainland China.