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

For the year ended 31st March, 2004 the Group reported a turnover from continuing operation of approximately HK$261 million. The Group's turnover was contributed from various business segments as below:

- Revenue from sale of watches was approximately HK$245 million. This was an increase of approximately 15% (HK$32 million) when compared with the previous year;

- Revenue from property-related business was approximately HK$4.6 million. This was roughly the same level as the previous year;

- External revenue from programming service was approximately HK$3 million. This was a decrease of approximately 31% (HK$1.5 million) when compared with the previous year;

- Revenue from investment securities was approximately HK$8 million (2003: approximately HK$22 million). In the previous year, the Group had redeemed certain debt securities upon maturity and realized a gain of approximately HK$0.6 million. During the year under review, the Group had grasped the favourable market sentiment to realize the entire investment portfolio and reported a profit of approximately HK$2 million. It is the Board's policy that the Group adopts a prudent investment policy in which risk and opportunities are to be well balanced. During the year under review, the Group engaged only in the trading of marketable securities in order to achieve a higher return from its surplus cash resources on hand.

For the year ended 31st March, 2004, the profit attributable to shareholders amounted to approximately HK$33 million and the basic earnings per share was HK9.81 cents. The result was largely attributable to the receipt of the partial payment under the disposal of the Lakeview Project amounting to approximately HK$47 million on 25th August, 2003. The details of such transaction have been disclosed in the press announcement dated 25th August, 2003. The receipt has been accounted for as a gain in this financial year. The short-term bank deposits and the shareholders' funds were increased by the same amount accordingly.

Not taking into account of the aforesaid receipt, the loss attributable to shareholders for the year ended 31st March, 2004 was amounted to approximately HK$14 million (2003: loss attributable to shareholders of approximately HK$32 million) and the additional basic loss per share for the year under review was HK4.38 cents (2003: additional basic loss per share of HK9.68 cents).

FINANCIAL REVIEW (continued)

In arriving the Net Profit for the year, the following items have been taken into account and properly dealt with:

- Pursuant to the prevailing international accounting standards and after taking into account of, among other things, the prevailing market conditions, global economic uncertainties and an independent valuation prepared by a professional valuer, there was a recognition of an impairment of goodwill of approximately HK$7 million (2003: 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 the information technology business and the Group.

- Pursuant to the Company's internal regular inventory management policy, there was approximately HK$20 million (2003: approximately HK$9 million) general and specific provision of inventories provided under the heading of "Other Operating Expenses, Net":

  General provision provided against the inventory as at 31st March, 2004 in accordance with the consistent stringent aging stock policy amounted to approximately HK$13 million (2003: approximately HK$9 million). The increase is mainly due to the increases in the merchandises so as to cope with the increases in the business turnover;

  Specific provision provided against our own branded JUVENIA amounted to HK$7 million (2003: HK$Nil). During the year under review, our management has mapped out a clearer market niche and position for JUVENIA in the Asian market. There was a once-for-all measure to write-down the entire obsolete models, which were not in line with the new market image and position of JUVENIA. The fine tune and re-alignment of the inventory assortments are positive and normal measures in order to meet the coming business development. It is expected that such specific provision will take place on a non-recurring basis and new marketing strategy of JUVENIA will be more easily conducted after such inventory re-alignment.

  These provisions have no impact on the Group's cash flow. The utilization rate of the capital in inventory by the Group, as evidenced by the inventory turnover ratio was approximately 2.0 times (2003: 1.9 times) was maintained at a sound level under the prevailing market practice.

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 continued to maintain a solid financial structure and basically finances its operation from internal financial resources.

LIQUIDITY AND FINANCIAL RESOURCES (continued)

As at 31st March, 2004, the Group maintained a net current asset position of approximately HK$181 million (2003: approximately HK$136 million) which includes short-term bank deposits, bank balances and cash of approximately HK$118 million (2003: approximately HK$68 million). The increase of short-term bank deposits, bank balances and cash are mainly attributed to the receipt of the further consideration under the disposal of the Lakeview Project and the realization of the investment portfolio during the year.

The liquidity of the Group, as evidenced by the current ratio (current assets/current liabilities) was approximately 4.4 times (2003: approximately 3.6 times), was maintained at a healthy level.

The recurring stream of cash inflow generated from watch retailing business, coupled with the huge cash reserve on hand, contributed the Group's sound liquidity position throughout the year under review.

CAPITAL STRUCTURE

The net shareholders' equity of the Group is approximately HK$162 million (2003: approximately HK$129 million). The Group is free from any bank borrowings except for the convertible notes issued on 22nd February, 1994 (the "Notes").

CONVERTIBLE NOTE

The Group had issued the Notes of Swiss Francs 58,000,000 (approximately HK$304 million) on 22nd February, 1994. During the financial year ended 31st March, 1997, the Notes were compromised with the note arrangement which is comprised of note moratorium and note exchange to Swiss Francs 11,800,000 (approximately HK$62 million).

i. Note moratorium

The terms of the note arrangement have been amended 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.

CONVERTIBLE NOTE (continued)

ii. Note exchange

Under the terms of the note exchange, the accepting note-holder accepted in full and final satisfaction of all claims which he may have against the Company in respect of each note held by him (including a wavier of all conversion rights) in consideration for a combination of certain amount of cash payment and allocation of certain amount of fully paid up share capital of the Company. Out of a total of 1,160 notes, holders of 924 notes accepted the note exchange. The net gain of HK$231,937,000 arising from the above was recorded in the financial statements for the year ended 31st March, 1997.

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

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 5.3% 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 not significant up to the date of this report. During the year under review, there is expectation of Renminbi appreciation. In the first half of the year, the US government triggered a worldwide pressure on the issue of revaluation of Renminbi so as to cope with the pressure to protect American jobs in the run-up to the coming presidential election. Recently, many surveys indicate that the Federal Reserve ("Fed") tends to further raise US interest rate in the near future as it moves to beat off emerging inflation. Since China has a pegged exchange rate regime, it has a high inclination to follow Fed in its interest rate policy. Given China is sitting on a massive amount of speculative capital that came on the expectation of Renminbi appreciation.

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

RECEIPT OF FURTHER CONSIDERATION FROM THE DISPOSAL OF LAKEVIEW PROJECT

On 23rd August, 1999, the Group completed the disposal of its interests in the Lakeview Project (the "Disposal"), a property development operation in the Mainland China. In accordance with the original agreement of the Disposal, which was modified with various supplemental agreements, the aggregate consideration was HK$157 million and was treated as revenue and the balance of the consideration, HK$76.5 million was recognized as receivable in the year ended 31st March, 2000. Payment for this receivable would be made gradually from time to time according to the time schedule of the obtaining of the land use rights certificates. The details of the Disposal are set out in the Company's circulars dated 14th December, 1998 and 23rd August, 1999.

The HK$76.5 million of receivable remained outstanding as at 31st March, 2002. With a view of adopting the Statement of Standard Accounting Practice 28 "Provisions, Contingent Liabilities and Contingent Assets", governing financial statements relating to periods beginning on or after 1st January, 2001, such receivable was reversed and treated as contingent asset and disclosed in the financial statements accordingly.

However, as at 25th August, 2003, the Purchasers paid an amount of approximately HK$47 million to the Company because they had obtained the land use right certificates in respect of Phases 7 to 10 of the Lakeview Project. The receipt has been accounted for as other income in the income statement. The short-term bank deposits and the shareholders' funds were increased by the same amount accordingly.

As stated in the aforesaid paragraphs, the receipt of the remaining balance of the aggregate consideration is on a gradual basis, i.e. to recognize and treat as other income in the financial statements from time to time as further land use right certificates are granted. The Company would monitor the status of the issuance of such land use right certificates and make further announcement when there is material progress.

CONTINGENT LIABILITIES

As at 31st March, 2004, the Company had contingent liabilities as follows:

(1) The Company has given corporate guarantees of HK$11 million (2003: HK$11 million) to banks to secure general banking facilities granted to the Group. As at 31st March, 2004, banking guarantees given in lieu of utility deposit amounting to approximately HK$0.4 million (2003: Nil). Except the aforesaid banking guarantees utilized during the year under review, the facilities, which are solely acted as standby nature for any business development of the Group's subsidiaries, have remained intact for the past several years. It was mainly due to the fact that the Group has surplus cash reserve on hand throughout years.

CONTINGENT LIABILITIES (continued)

(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, 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. Further to the Court Order made on 4th January, 2002 that the Company is granted a leave to dispense with the filing and service of a defence in relation to the Action, pursuant to the subsequent Court Orders made on 3rd and 4th September, 2003, the ultimate result was that the Company successfully denied the Plaintiff's application regarding claiming the Company to indemnify their legal costs incurred in this Action. Accordingly, 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, 2004, certain of the Group's investment properties and leasehold properties with carrying value of approximately HK$7 million (2003: approximately HK$13 million) and HK$7.4 million (2003: approximately HK$1.5 million) respectively were pledged to secure the general banking facilities to the extent of HK$11 million.

As at 31st March, 2004 and 2003, the Company had not pledged any assets.

OPERATIONAL REVIEW

Watch Trading and Retailing

During the year under review, Gross Domestic Product ("GDP") in the PRC rose 9.1% from that in 2003 despite the Severe Acute Respiratory Syndrome ("SARS") outbreak. Due to effective measures implemented by relevant PRC authorities for the control of SARS, the PRC economy revived and promptly regained its momentum. The disposable income per capita of urban residents in the PRC amounted to approximately RMB8,472, a year-on-year increase of approximately 9.0%. Net income per capita of rural residents was approximately RMB2,622, a year-on-year increase of approximately 4.3%. The stable development in the state economy and a sustainable and prosperous retail industry contributed to a favourable environment for retail chain enterprises in the PRC.

OPERATIONAL REVIEW (continued)

Watch Trading and Retailing (continued)

The aggregate turnover from the retail sales of watches excluding the Swiss office during the year under review amounted to approximately HK$243 million, representing an increase of 16% compared with approximately HK$210 million for the previous year. The overall retail turnover increase was a reflection of the continued growth in average annual household income in urbanized PRC cities where TIME CITY, our proven result retail chain, principally locates its retail outlets, and the increased ability and willingness of these households to purchase watches.

During the year under review, this segment recorded only a minor profit amounting to approximately HK$1 million (2003: loss of approximately HK$4 million).

The following factors are attributed to this result:

The Group incurred higher costs in advertising and promotions amounting to approximately HK$3 million when comparing with the previous year as we tried to enhance our own brands and their profile. These costs, while important to the Group's long term growth, affects our bottom line during the year.

Due to the Company's internal prudent accounting method, the aggregate amount of the general and specific provision of inventories amounting to approximately HK$20 million had been provided to the income statement. The details of the general and specific provision of inventories provided are disclosed under the Heading "Financial Review". Such provisions have no impact on the Group's cash flow. The Group's inventory turnover ratio was maintained at a sound level under the prevailing market practice.

Under such fuelled fierce competitions, the management had implemented, among others, measures during the year under review in order to maintain our competitive edges in the market:

It is the Board's policy to maintain and develop the high-performance retail chain in the market by continued reviewing and monitoring the cash flow and profitability of each outlet. Those under-performance outlets have been closed and the resources released have been then reallocated to other outlets;

TIME CITY has adopted flagship shops concept as one of the business policies in the Mainland China during the year under review while the on-going shop portfolio enhancement program ensure that TIME CITY's image is the most prominent figure in the high end watch retail business. Flagship shops replace smaller format shops. These flagship shops allow customers to browse through a wide variety of products under one roof;

The Company had issued bi-monthly magazine namely "Citylife" during the year under review. It was an effective marketing tool to promote the brand image of our retail chain i.e. TIME CITY and those commodities that display and sale in our TIME CITY chain;

In order to offer wider choices to our customers whilst keeping the balanced investment in the inventories, perpetual inventory review system has been adopted through our computerized management information system. It is TIME CITY's business model to offer an attractive assortment of the merchandise to meet the customers' total satisfaction;

OPERATIONAL REVIEW (continued)

Watch Trading and Retailing (continued)

It is the Board's policy to keep improving its quality of repair and maintenance services including the free of charges after-sales services for a fixed warranty period. The delivery of high quality repair and maintenance services enhances customers' loyalty to our retail chain.

Securities Investment

Following a bearish 2002, the stock market remained listless in 2003 until the third quarter. The market sentiment has become more favourable with signs of restoration of consumer confidence, soaring properties market in US, the continued export-led recovery in the Asian countries and improvement in unemployment rate. The Group had grasped such opportunity to realize entire investment portfolio at proceedings amounting to approximately HK$8 million and to report a profit of approximately HK$2 million during the year under review. It is the Board's policy to apply the surplus funding to invest in securities investment with an aim to diversify the financial risks and gain a higher return to the Group. Pursuant to such policy, the Group does not involve in any high-risk margin trading.

Properties Investment

Gross rental income generated from properties investment for the year ended 31st March, 2004 amounted to approximately HK$4.6 million (2003: approximately HK$5.0 million). The minor decrease in the gross rental income is due to the fact that the Group had moved its principal office into one of the properties investment around the third quarter so as to take the advantage of rental differential over the different districts. It is 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 properties investment in medium term.

Swiss Operation

During the year ended 31st March, 2004, our Swiss office recorded a loss amounted to approximately HK$1.6 million. During the year under review, not only did we improve our products and overall management, but also mapped out a very clear direction to position ourselves in the market i.e. to reinstate the brand image of JUVENIA as a symbol of elegance and taste. With JUVENIA's exquisite image, coupled with our competitive edges of retail chain in the PRC, which in turn providing close and regular contacts with its ultimate customers and gathering market intelligence including the sales pattern of new models and feedback from customers, we are confident in capturing and expanding our market share in the Mainland China in the near future. Apart from the market in the Mainland China , we will also exploit the Middle East and Far East markets as our strategic primary market expansion in the future.

It is the Company's long term mission to exploit the full potential of its value of JUVENIA and bring the long term benefits to the Company and its shareholders.

OPERATIONAL REVIEW (continued)

Programming Service Provider

According to the pre-determined prudence strategy, the Company had adopted a stringent measures to reduce the operating costs including voluntary salary cut of the senior management, recruiting contract programmers instead of permanent programmers, remove the office premise away from prime location and sharing the administration and overhead costs with other group companies during the year under review so as to enhance the business efficiency. However, all of the efforts are bitterly hit by the SARS outbreak, the Iraq war and a series of terror attacks, which in turn hampered fiercely the revenue of our programming service. For the year ended 31st March, 2004, the aggregate segment revenue and result from the programming service amounted to approximately HK$3 million and loss of approximately HK$2 million respectively. Amid the simmering tensions between the US and China regarding the trade deficit of US, the issue of Renminbi appreciation and the cross-strait relationship after the Taiwan's presidential selection, the motive of US Information Technology ("I.T.") customers to outsource their I.T. tasks to the China-based programming companies remained weak. This is particularly discouraging to our business model.

Consistent with the true and fair accounting principles, the Group had recognized an impairment for goodwill in respect of our interest in the Programming Service Provider of approximately HK$7 million, after taking into account of, among other things, the prevailing market conditions, global economic uncertainties and an independent valuation prepared by a professional valuer, so as to furnish a prudent position of such investment to our shareholders as at 31st March, 2004. Such impairment has no impact on the operations and cash flows of the programming service business and the Group.

Employee

As at 31st March, 2004, the Group has around 500 employees about 91.2% of which are working in the PRC, mainly for the watch retailing business. Apart from the frontline colleagues, staff 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, 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, 2004 was amounted to approximately HK$29 million (2003: approximately HK$27 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

Watch Trading and Retailing

According to the figures released by the National Bureau of Statistics, the industrial output continued to rise, hitting RMB431 billion in May 2004. The pace of growth in industrial output has slowed which itself indicating that measures to cool the overheating economy are taking effect, at 17.5% year-on-year rise. With the GDP per capita reaching US$1,090 as announced by the National Bureau of Statistics, the overall market trend on the Chinese Mainland is moving towards a "broad-based economic development combined with rising consumption". The rising consumerism, expansion of the middle class and the strive for elegant and lifestyle has created a booming market in the Mainland China.

However, the competition of the domestic retail market in the PRC has been very fierce on the other hand.

With the signing of The Closer Economic Partnership Arrangement on 30th June, 2003, the barrier to enter into the Mainland market is significant lowered. The existing fierce competition is further fuelled.

Furthermore, the new entrants do pose immediate threats as the scramble for experienced frontline staff and shops at prime locations implies that salaries, staff benefits and retail rental prices will rise accordingly. The escalated operating costs with added fuel from the great inflationary pressure in China, will then put great pressure on the operating productivity and lead to squeezed margin.

With the visa relaxation for frequent individual travellers to Hong Kong from major cities on the Chinese Mainland, TIME CITY like other Mainland retailers faces the direct competition with Hong Kong counter players. According to The Hong Kong Tourism Board, 1.7 million people visited Hong Kong in April 2004, 330,000 more than before in the same month. With the proposed addition of Liaoning, Jilin and Heilongjiang to the solo traveller scheme, urban residents of most of China's coastal provinces would be eligible to come to Hong Kong. Other recent news released that luxury goods purchases in Hong Kong in April, 2004 are up 71% on a year ago and sales of products favoured by Mainland visitors such as jewellery, watches, clocks and gifts, increased 71.4%.

The infringement of our brand name "TIME CITY" in many provinces by various sole proprietors caused direct damage to our retail business. In order to lower their barriers of entry to the retail business, some local competitors imitate our logo and shop decoration so as to increase their market shares. Though it is a long and winding way before an effective regulatory protection in the mainland regarding the intellectual property right to be mapped out and put into practice, we have taken necessary measures including legal action, to protect the Company's right in the due course. TIME CITY also relied on its customer service to differentiate itself from those forgery shops.

Facing such tough challenging business environment, in order to secure and further enhance our market positioning, the Group based on customer-focused strategy strives to do better and better as below:

The Group will continue to expand the flagship shops concept and on-going shop portfolio enhancement program in the Mainland China during the coming years. These flagship shops allow customers to browse through a wide variety of products under one roof and the on-going shop portfolio enhancement program will ensure that TIME CITY's image is the most prominent figure in the high end watch retail business.

PROSPECTS (continued)

Watch Trading and Retailing (continued)

The Group takes tailor-made measures to enhance the shopping environment and merchandising display. The latest shop image displayed has brought a fresh look that was well received by consumers. In the long run, this could help to strengthen our brand image and induce customers to purchase from the Group repeatedly.

Besides, the Group also puts emphasis on our partners. Good relationships with departmental store chains will establish to further energize TIME CITY's regional expansions. Furthermore, TIME CITY formulates promotion strategies and collaborates with the Group's suppliers and customers on the formulation and/or implementation of promotion plans and the release of new products.

It is the Company's strategy to apply advanced management information system so as to keep improving the operation efficiency of our retail operation. Upon the refinement of the information technology platform in 2004, all outlets can access their respective real time sales figures and inventory levels. With proper data mining, management can better understand customers' buying patterns which in turn not only helping our sales team to respond more rapidly to changes in customers' preferences, but also providing TIME CITY to strengthen inventory management.

The Group recognizes that customer loyalty is built on trust and confidence. As such, we dedicate our operation team to devote more resources to reinforce our sales team service quality and standard through ongoing professional training.

To keep the momentum of profit growth, the Group will pursue ways at a cautious but proactive manner, to extend our business horizontally and vertically, to create synergy between different business segments, to maximize the return by introducing more value-added services, and to utilize resources effectively as much as possible. One of the long-term business developments was the moderate expansion and development of our own brands, ACCORD and JUVENIA.

The Company will allocate more resources in brand promotion, which will form the synergy with our retail business.

Programming Service Provider

The Board will continue to closely monitor performance of its I.T. business according to its predetermined risk mitigation measures. It is the Board's investment policy that investment result of any new venture should not jeopardize the development of the existing core-business and therefore any utilization of the Group's cash resources will be under tight scrutiny. In the event that additional funding is requested for the future operations of the programming services business, it is possible that the Group may request its business partner to provide the requested additional funding and accepts certain dilution effect in the equity holding. Therefore it anticipates that the operations of our programming services business 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 the Mainland China.