Financial Review

For the year ended 31 December 2004, our Group recorded a turnover of HK$876.9 million as compared to HK$836.0 million in the previous year, reflecting the improvement in domestic consumption sentiments. Although there noted the recovery in domestic retail market, the recovery magnitude varied with retailing sectors. Taking advantage of the recovery in properties market, the sales of our retail business rose slightly by 4.9%, apparently lagged behind other retail sectors such as motor cars, jewellery and watches. The overall improvement in the domestic retail market has, however, imposed tougher business environments on our Group as the break-the-neck pace of upturn in shop rentals has further eroded the already thin profit margin. Seeing the varying recovery magnitudes across the retail sectors and the strong growth in the retailing business of digital products, especially the high-end audio and video consumer products, our Board envisaged a need for changes in our business model. As such, we have constantly reviewed the existing retail network strategy and our product mix and closed 7 non-performing stores in the last year, thus reducing the number of stores to 38 at the year end. We also suspended carrying the slow-moving stock items of small ticket-sizes which could not enable us to earn reasonably decent profit margins. Revising the current store network and the stock items does not mean our Group will slow the business growth. To capture the rising sales in the high season during the Christmas and New Year holidays, our Group opened 4 stores under a new brand name of 3C Digital selling the aforesaid trendy digital products in December last year. Also, our international business had been in good progress and purchase orders had been received from our partner in Saudi Arabia. Facing the rapidly changing environments, our Group had managed to fine tune our existing business model, which inevitably led to some restructuring costs incurred. Furthermore, in order to remain competitive in the market amid the difficult business environment, we continued a number of cost reduction measures for domestic retailing section. With these combined efforts against the difficult business environments, a net loss of HK$82.6 million was reported for the whole year.

Financial Review

Taking into account the reported loss for the year and the completion of 1-for-4 rights issue which had raised total net proceeds of approximately HK$46.0 million in September, our Group's total shareholders' equity stood at HK$150.3 million on 31 December 2004. Our cash and bank balances were HK$199.2 million at the year end, a reduction of HK$18.7 million compared with the prior year end. The mild decrease in the cash and bank balances was due to the reported loss and the additional investment in the newly opened 3C Digital shops and international business during the year. Our liquidity ratio on 31 December 2004 remained healthy at 1.2 times at the year end as compared to 1.3 times at the previous year end.

Our total bank borrowings on 31 December 2004 were HK$78.4 million as compared to HK$88.2 million on 31 December 2003. The decrease in bank borrowings was due to the tightening of our working capital for the whole year. All of our bank borrowings are in HK dollar, with the interest rates priced at close to banks' funding costs. Therefore, our exposure to both foreign currency and interest rate fluctuation was insignificant. We have sufficient banking facilities for its operations even at the peak seasons for the whole year. On 31 December 2004, the Group was holding a portfolio of listed investment with market value of approximately HK$19.1 million and a gain on investment of HK$0.5 million was recorded for the year. The ratio of total bank borrowings to shareholders' equity on 31 December 2004 was 52.1%, still at a healthy level, as compared to 48.4% on 31 December 2003.

As at 31 December 2004, our leasehold properties at their carrying value of approximately HK$37.0 million and bank deposits of HK$36.0 million were pledged to secure bank term loan and general banking facilities granted to a subsidiary. Save as aforesaid, we have no other material contingent liabilities at the year end.

Financial Review

In November 2004, we entered into an agreement to purchase the whole stake of a fellow subsidiary, the principal activities of which are retailing and trading branded skincare and cosmetic products, from our holding company. The purchase consideration was approximately HK$9.7 million. Save as aforesaid, our Group did not make any material acquisitions or disposals during the year ended 31 December 2004. There was no significant investment held during the year. We do not have any future plans for material investments or capital assets.

Subsequent to the year end, 83 million of new shares were issued to two investors and total net proceeds of HK$23.2 million had been raised in April 2005 for general working capital. In April 2005, our Group had entered into a placing agreement, pursuant to which 223 million of new shares will be issued to investors upon completion with a view to raising total net proceeds of approximately HK$65.7 million for the expansion of the retail business of the Group in China and as its working capital.