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, 2005, the Group reported a turnover of approximately HK$255.7 million. This was a decrease of approximately HK$5.8 million. The turnover is mainly contributed by the business segments below:

(1) Revenue from Watch Trading and Retailing was approximately HK$249.4 million. This was a minor increase of approximately HK$3.9 million (1.6%) when compared with the previous year;

(2) Revenue from Property-related Business was approximately HK$3.7 million. This was a decrease of approximately HK$0.9 million (19.6%) when compared with the previous year;

(3) Direct revenue from Programming Service was approximately HK$2.6 million. This was a decrease of approximately HK$0.8 million (23.5%) when compared with the previous year; and

(4) During the year under review, the Group recorded no transaction in the trading of marketable securities whereas there were revenue from investment securities amounting to HK$ 8 million in the previous year.

Distribution Cost

The Distribution Cost is the significant cost element apart from the Cost of Sales in the cost structure of the Group's core business i.e. watch trading and retailing. Any changes of the Distribution Cost have material effect on the bottom line of the Group. The Distribution Costs of the Group was approximately HK$88 million (2004: HK$73 million) for the year under review, representing an increase of 21% when compared with the previous year. The increase was mainly attributable to, among other things, the following factors:

(1) The continued inflow of foreign direct investment fund which focus on the continued economic growth of Mainland China and the resultant colossal business opportunities add momentum to the property market to rally. All the recent new retailer projects are bigger in size and competition among retailers is intensifying. The Company's retail chain "TIMECITY" has to come up with new ideas and features to keep pace with the customer demands. All these lead to the surge of the general rental expenses. This effect is very direct and material to the distribution cost of TIMECITY as our shops are mainly located in the prime location of the major cities in the PRC. During the year under review, the Group recorded an average 15.3% increases in the rental cost. This has already taken into account the certain measures and new display designs that have been adopted to maximize the gross profit contribution per sales floor area. The Board takes the view that the trend of increasing rental will remain as the major thread to TIMECITY in the year to come. It is expected that higher rentals will be requested by the landlords when the existing leases are renewed upon expiry.

FINANCIAL REVIEW (continued)

Distribution Cost (continued)

(2) As a result of intensified competition in the PRC retail market, TIMECITY suffered from the trend of increasing salary and staff cost. The Company recorded an average 16% increase in staff cost. These are mainly due to the following reasons:

(a) In order to maintain the staff turnover and retain experienced sales staff in the retail chain, TIMECITY has to review its salary package and incentive scheme periodically; and

(b) In order to raise our standard of professional service, the Group has recruited new staff and enlarged its human resources team in the professional rank in the area of designs, brand promotion and project development. While keeping the overall headcount in control, the Group's salary cost is increased as a result of the upgrade of the quality of the middle management team.

(3) The increases in advertising and marketing expenses were resulted from the increasing marketing and promoting activities as well as campaigns so as to enhance the brand image of our own products and retail chain.

Other Operating Expenses, Net

The Other Operating Expenses, Net for the year under review was approximately HK$10 million (2004: HK$21 million), representing a decrease of HK$11 million when compared with the previous year. The decrease is mainly attributable to a decrease in the stock provision HK$10 million and the written back of provision for bad and doubtful debts amounting to HK$1 million this year. The Group had consistently applied its stringent aging stock policy and so the decrease in the general provision HK$3 million is a result of rigorous and more efficient inventory management throughout the year. Furthermore, there was a specific provision against the entire obsolete models of our own brand JUVENIA amounted to HK$7 million in the year 2004. The specific provision is non-recurring in this year.

Other Income, Net

The Other Income, Net were not arisen from the core business of the Group. During the year under review, the Other Income, Net of the Group recorded an amount of approximately HK$11 million (2004: HK$39 million), representing a decrease of HK$28 million. The decrease is mainly attributable to the following components:

(1) A provision for management fee demanded for previous years by a Chinese joint venture partner in a Dongguan factory amounting to approximately HK$6 million has been provided during the year (2004: HK$ Nil). The details of the provision for management fee demanded are set out in the interim report for the period ended 30th September, 2004 and under the paragraph headed "DISPOSAL OF PROPERTY INTERESTS IN THE PRC". The claim for such management fees has been settled as a result of the disposal of the Dongguan factory;

(2) As set out in the interim report for the period ended 30th September, 2004 and under the paragraph headed "DISPOSAL OF PROPERTY INTERESTS IN THE PRC", a subsidiary's property in Dongguan, which is held for rental purpose under operating lease, is revalued by DTZ Debenham Tie Leung Limited, a firm of independent professional valuers at 30th September, 2004 on open market basis for the sake of best practice. An aggregate amount of approximately HK$3.7 million in relation to a deficit arising from revaluation and an impairment loss recognized in respect of a leasehold property has been provided during the year (2004: HK$ Nil);

FINANCIAL REVIEW (continued)

Other Income, Net (continued)

(3) In the previous year, impairment loss recognized in respect of goodwill amounted to approximately HK$7.4 million has been provided. There is no such impairment recorded in the year 2005; and

(4) During the year under review, final receipt of consideration from disposal of the Lakeview Project was approximately HK$21.1 million compared to a receipt of HK$47.4 million recorded in the previous year. The details of the final receipt of consideration from disposal of the Lakeview Project are set out under the paragraph headed "FINAL RECEIPT OF CONSIDERATION FROM THE DISPOSAL OF LAKEVIEW PROJECT" and in the press announcement dated 26th January, 2005.

Profit Attributable to Shareholders

For the year ended 31st March, 2005, the profit attributable to shareholders amounted to approximately HK$4.4 million (2004: approximately HK$32.7 million) which after taking into account of the final receipt of consideration from the disposal of the Lakeview Project amounting to approximately HK$21.1 million (2004: approximately HK$47.4 million) and basic earning per share for the year under review was HK1.31 cents (2004: HK9.81 cents).

If the receipt of the consideration from disposal of the Lakeview Project is not taking into account (i.e. it is not expected to be recurring), the loss attributable to shareholders for the year was amounted to approximately HK$16.7 million (2004: approximately HK$14.6 million) and the additional basic loss per share for the year was HK5.01 cents (2004: HK4.38 cents).

DISPOSAL OF PROPERTY INTERESTS IN THE PRC

On 13th January, 2005, a wholly owned subsidiary of the Group entered into a sale and purchase agreement (the "Agreement") with an independent third party (the "Purchaser") to dispose (the "Disposal") of its entire interests (i.e. all the rights and obligations) derived from an agreement dated 8th June, 1992 (the "Old Agreement") entered into with Dongguan Houjie Town Economic Development Head Company (the "Chinese Partner") in relation to the grant of the land use right of industrial buildings in Dongguan, the PRC (the "Properties") for a term of 50 years. The total cash consideration for the disposal is RMB19.9 million (or approximately HK$18.8 million) and was paid by the Purchaser upon signing of the Agreement.

The Properties comprises three blocks of industrial buildings and four blocks of dormitory buildings and two buildings accommodating a staff canteen and a power generator with a total gross floor area of approximately 48,900 square meters within an industrial complex located at No. 5, Industrial Zone, Houjie Town, Dongguan, the PRC. Pursuant to the Old Agreement, the subsidiary had to pay monthly management fee to the Chinese Partner for the grant of the land use right of the Properties.

Details of the disposal of Property Interests are set out in the press announcement and the Company's Circular dated 19th January, 2005 and 7th February, 2005 respectively.

DISPOSAL OF PROPERTY INTERESTS IN THE PRC (continued)

As set out in the interim report for the period ended 30th September, 2004, the Chinese Partner requested the Group to reactive its OEM manufacturing activities in the joint venture in Dongguan, which had been dormant subsequent to the business restructuring in 1997. Such request was considered by the Group inconsistent with the Group's corporate strategy since 1997. The Chinese Partner later issued a written notice dated 15th September, 2004 demanding for management fee for prior years amounting to RMB6,374,200 (approximately HK$6 million) (the "Claim"). The Group did not admit the validity of the Claim, however would consider any appropriate settlement proposals if deemed to be in the best interest to the Group. The Disposal served an opportunity for the Group to settle the Claim because pursuant to the Agreement, the Purchaser would assume the responsibility of settling the Claim.

The assumption of responsibility for settling the Claim by the Purchaser gave rise to approximately HK$6 million of gain on disposal of the Properties, which thereby reduced the overall loss on disposal of property interests in Dongguan to approximately HK$170,000.

Moreover, the Board is of the view that the Disposal represents an opportunity to the Group to realise its non-core investments and proceeds thereof could strengthen the working capital position for the operations of the core business of the Group.

FINAL RECEIPT OF CONSIDERATION FROM THE DISPOSAL OF LAKEVIEW PROJECT

On 23rd August, 1999, the Group completed the disposal (the "Disposal") of its interests in the Dongguan Asia Commercial Hwang Gang Lake Development Limited (the "Lakeview Project"), a property development project in the PRC. In accordance with the original agreement and its subsequent supplemental agreements of the Disposal, the aggregate consideration was HK$157 million and was treated as revenue and the part of the total 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 right certificates. Details of the Disposal were set out in the Company's circulars dated 14th December, 1998 and 23rd August, 1999.

Pursuant to the terms and conditions of agreements, 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.

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.

During the year under review, the Purchasers further notified that the land use right certificate for Phase 11 of the Lakeview Project had been obtained.

On 26th January, 2005, the Company has received from the Purchasers payment of approximately HK$21 million in respect of such land use right. As informed by the Purchasers, all relevant land use right certificates for the Lakeview Project have been obtained. Accordingly, the payment amounting to approximately HK$21 million represents the final receipt of consideration by the Company for the Disposal. Details of the final receipt of consideration for the Disposal are set out in the press announcement dated 26th January, 2005.

All the receipts have 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.

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, certain premises stated as Properties held for Resale, in the Group's current assets has been reclassified as Investment Properties and Leasehold Properties in the non-current assets. The aggregate amount of the reclassification is approximately HK$13 million. The reclassification was a result of the usage of certain properties by the Group's own operation and leasing out.

The Group continued to maintain a solid financial structure and basically finances its operation from internal financial resources throughout the year. As at 31st March, 2005, the Group maintained a net current asset position of approximately HK$194.6 million (2004: approximately HK$181.5 million) which includes short-term bank deposits, bank balances and cash of approximately HK$120.5 million (2004: approximately HK$118.1 million). The liquidity of the Group, as evidenced by the current ratio (current assets/current liabilities) was approximately 4.2 times (2004: approximately 4.4 times), was maintained at a healthy level.

CAPITAL STRUCTURE

As at 31st March, 2005, the net shareholders' equity of the Group is approximately HK$169.1 million (2004: approximately HK$162.3 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 6.5% 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.

Premier Wen Jiabao recently said that China needed to continue improving the exchange rate mechanism and develop a more market-oriented and more flexible exchange rate system. The Board expects that development of the PRC's exchange rate system will provide an improved economic platform for the Group's future business development in the PRC.

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

As at 31st March, 2005, the Company had contingent liabilities as follows:

(1) The Company has given corporate guarantees of HK$11,000,000 (2004: HK$11,000,000) to banks to secure general banking facilities granted to the Group. As at 31st March 2005, bank guarantees given in lieu of utility deposit amounting to approximately HK$404,000 (2004: 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.

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 and other appropriate declarations or further ancillary reliefs. As the Company is only 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 that 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. 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, 2005, certain of the Group's investment properties and leasehold properties with carrying value of HK$7,700,000 (2004: HK$7,140,000) and HK$7,031,000 (2004: HK$7,367,000) respectively were pledged to secure the general banking facilities to the extent of HK$11 million.

As at 31st March, 2005 and 2004, the Company has not pledged any assets.

OPERATIONAL REVIEW

Watch Trading and Retailing

During the fiscal year ended 31st December, 2004, the China experienced rapid economic development with a gross domestic product growth of 9.5% as compared with the previous year 2003. According to the survey released, total retail sales of consumer products for the fiscal year ended 31st December, 2004 in the PRC reached RMB5,395 billion, representing an increase of 13.3% from the previous year 2003 (after deducting price factors, actual growth was 10.2%). It was a reflection of the continued growth in average annual household income and the increased ability and willingness of these households to purchase consumer products, which is in line with the general increases in the living standards of the peoples in China.

Though the China market has huge potential, the competition in retailing market has further intensified during the year under review.

OPERATIONAL REVIEW (continued)

Watch Trading and Retailing (continued)

The aggregate turnover for the retail sales of watches during the year under review amounted to approximately HK$247.7 million, representing only a minor increase of 1.9% compared with approximately HK$243.2 million for the previous year. It was mainly due to the following challenges and difficulties that our retail chain "TIME CITY" encountered during the year under review:

1. Under the Individual Visit Scheme, our retail chain, like other Mainland retailers, faces the direct competition with Hong Kong retailers. According to the recent statistics released, arrivals from the Mainland China to Hong Kong exceeded 4 million on the first four months (i.e. January to April 2005) of the year, up 5.2 per cent from the previous year. They spent approximately HK$38.6 million in Hong Kong, representing 55 per cent of all visitors' spending during the last 12 month ended December, 2004;

2. Reputable retail players, especially those with international exposure and expertise, are actively establishing foothold in China's booming retail market so as to capture colossal business opportunities brought on by China's accession to the World Trade Organization in 2001 and its continued sustainable economic growth. The services rendered by these multi-national firms constitute a significant force in the high end luxury consumer market and they are regarded as our major competitors;

3. Following the gradual implementation of the Closer Economic Partnership Agreement, which is signed in 2003, the new competitors from Hong Kong retailers can further easily penetrate into the PRC market. As a result, the fierce competition is further fuelled. Even though the overall market increases during the year, our room for increasing the market shares is severely restricted by the new market players; and

4. Amid the keen competition, the profit margin have been falling as more and more retail players in particular the local competitors race to compete for a bigger market share by adopting aggressive pricing and discount strategy.

During the year under review, this segment recorded a profit amounted to approximately HK$7 million (2004: HK$1 million). In the previous year 2004, the Group has provided a specific provision against our own brand JUVENIA amounted to HK$7 million. That was a non-recurring measuring to write-down the entire obsolete models, which were not in line with the new market image and position of JUVENIA.

Facing the squeezed profit margin under the fierce competition, the Group has gradually determined different product assortment for each outlet according to the needs of different cities, communities and consumption level so as to increase the efficient and sales capabilities of each outlet. Furthermore, the increasing income earning population of Mainland China continues to create increase demand of quality products, which in turn provide good opportunity for our own brands ACCORD and JUVENIA. The improvement in gross profit margin was driven predominantly by the increasing contribution of gross profit generated by the own branded products.

OPERATIONAL REVIEW (continued)

Properties Investment

Gross rental income generated from properties investment for the year ended 31st March, 2005 amounted to approximately HK$3.7 million (2004: approximately HK$4.6 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 end of last year so as to take the advantage of rental differential over the different districts. It is in accordance with the Board's policy to maximize the return to the Company.

Swiss Operation

During the year under review, our Swiss office recorded a loss amounted to approximately HK$3.6 million.

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 Group and its shareholders. The Board takes the view that the success of JUVENIA brand can offer significant financial contribution to the Group in the future. Nevertheless, brand-building business is a long-term process, which normally has a long pay back period. In the current stage, the Group regards JUVENIA is just in its initial re-launch period after it has been keeping dormant since the Group's financial restructuring in the year 1996.

It is expected that the Swiss operation will rely on the financial support of the Group to its new marketing plan. The Group has confident that with good marketing supports and risk management, JUVENIA's goodwill on customers' mind will be re-sparkled. This will then be turned into attractive business result. The sales of JUVENIA product is expected to form an increasingly significant part in the Group's sales product mix and gross profit contribution.

Programming Service Provider

During the year under review, KBQuest continues to concentrate on offshore application programming services for its Hong Kong and US customers. Competition in the US is intensified as its economy recovers. Unfortunately, the US market is dominated by Indian companies who have the lion share of the IT outsource market. The notion of outsourcing application programming activities to China is still not well received as many US companies are apprehended and have limited working experiences with Chinese-based programming service providers. To overcome these concerns, the Company has no choice but to slash prices in order to lure potential customers to make the switch. The IT market in Hong Kong is recovering but at the same time the competition turns red hot. Most of our HK competitors also have their own support of Mainland Chinese programmers with similar cost structure.

The Board was informed that the joint venture partner in Shanghai Forward Group has lost its CEO as a result of an air clash in November, 2004. The deceased CEO is one of the key founders of the KBQuest project and this further shaken the development pace of KBQuest.

OPERATIONAL REVIEW (continued)

Programming Service Provider (continued)

For the year ended 31st March, 2005, the segment revenue and result from the programming service amounted to approximately HK$2.6 million and a loss of approximately HK$2.4 million respectively. The loss is mainly attributable to a provision for bad and doubtful debt provided and the written off of certain development cost during the year.

Given the unfavourable conditions surrounding KBQuest, the Company will continue its existing conservative policy towards the business proposal and therefore the Board expects that there will not be material adverse financial effect to the Group's overall performance in the near future.

EMPLOYEE

As at 31st March, 2005, the Group has around 527 employees about 89% 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, 2005 was amounted to approximately HK$34 million (2004: approximately HK$29 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

Look forward to the coming year, the Group will continue to focus on our core business i.e. Watch Trading and Retailing. Also it will also emphasis on the Brand Development.

As a result of the increases in the number of market players, TIMECITY must be able to improve its services to the customers. As the key to the success of the high-end watch retail business relied on the service quality rather than price. TIMECITY will form business alliance with reputable brands to obtain the exclusive distribution rights in certain cities. In order to upgrade the quality of its service to its invaluable customers, TIMECITY has strategic plan to segment the market and the positioning of each shop has been re-defined after close scrutinizes. The product mix of TIMECITY will be reviewed on shop by shop basis with reference to its targeted customers. It is expected that only those shops with clear customer target and tailored made service can stand in the high-end watch retail market as the result of the keen competition. TIMECITY has clear strategy and tactic to expand its market share in certain niche.

PROSPECTS (continued)

Watch Trading and Retailing (continued)

In the coming year, TIMECITY will be looking for the synergy of offering high end branded jewellery from Europe together with the watches collections to its customers. A few famous branded jewellery products to be launched at selected main cities in certain TIMECITY shops on trial run basis. The capital investment for such product diversification will be managed closely and reviewed frequently.

In order to hedge against the risk of continuously increasing rental cost, TIMECITY will consider seriously various proposals and offers of acquisition of shops for the operation of retail shops. However, this may not be realized in rush as the Group has high selection standards toward the offers.

As retail business is a "business of detail", the Group will continue its policy to improve the operation efficiency which will mainly be reflected in the performance of inventory control and treasury management.

It is expected a new version of the ERP system will be in placed in the early of 2006. With its aid, the management of TIMECITY is in a better position to enhance the control of stock turnover and more sophisticated financial planning and incentive scheme can be formulated to motivate the sales staff.

Although the competition in the PRC retail market is expected to be further intensified in the year to come, the Group has plenty of room to develop its business and improve its profitability in the area of brand building.

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.