



# ASIA COMMERCIAL HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

## ANNOUNCEMENT OF AUDITED RESULTS FOR THE YEAR ENDED 31ST MARCH 2003

### RESULTS

The Board of Directors (the "Board") of Asia Commercial Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31st March, 2003 as follows:

#### Consolidated Income Statement

		2003	2002
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
TURNOVER	2	<b>245,596</b>	189,360
COST OF SALES		<b>(169,600)</b>	(124,285)
GROSS PROFIT		<b>75,996</b>	65,075
OTHER REVENUE	2	<b>8,432</b>	9,399
DISTRIBUTION COSTS		<b>(67,543)</b>	(54,956)
ADMINISTRATIVE EXPENSES		<b>(14,347)</b>	(17,023)
OTHER OPERATING EXPENSES, NET	4	<b>(8,987)</b>	(205)
(LOSS) PROFIT FROM OPERATIONS		<b>(6,449)</b>	2,290
FINANCE COSTS	5	<b>(1,352)</b>	(1,388)
OTHER EXPENSES	6	<b>(27,050)</b>	(1,955)
SHARE OF RESULTS OF AN ASSOCIATE		<b>(782)</b>	(1,082)
LOSS BEFORE TAXATION	7	<b>(35,633)</b>	(2,135)
TAXATION	8	<b>(240)</b>	(179)
LOSS AFTER TAXATION		<b>(35,873)</b>	(2,314)
MINORITY INTERESTS		<b>3,580</b>	2,466
NET (LOSS) PROFIT FOR THE YEAR		<b>(32,293)</b>	152
ACCUMULATED LOSSES BROUGHT FORWARD		<b>(336,868)</b>	(337,038)
EXCESS DEPRECIATION ON REVALUED PROPERTIES		<b>13</b>	18
ACCUMULATED LOSSES CARRIED FORWARD		<b>(369,148)</b>	(336,868)
DIVIDEND	9	<b>—</b>	—
(LOSS) EARNINGS PER SHARE	10	<b>(9.68 cents)</b>	0.05 cent

## Notes:

**1. ADOPTION OF REVISED AND NEW STATEMENTS OF STANDARD ACCOUNTING PRACTICE**

In the current year, the Group has adopted, for the first time, the following revised and new Statements of Standard Accounting Practice ("SSAP's") issued by the Hong Kong Society of Accountants.

SSAP 1 (Revised)	:	Presentation of financial statements
SSAP 11(Revised)	:	Foreign currency translation
SSAP 15 (Revised)	:	Cash flow statements
SSAP 34	:	Employee benefits

Adoption of these SSAPs has no material effect on the results for the current or prior accounting years. Accordingly, no prior year adjustment has been required.

**a) Statement of changes in equity**

In accordance with SSAP 1 (Revised) the requirement for presenting a statement of recognized gains and losses has changed to presenting a statement of changes in equity.

**b) Foreign currency translation**

The principal revision in SSAP 11 (Revised) is that in preparing the consolidated financial statements, the income statements of the Group's operations outside Hong Kong have to be translated at the average rates for the period rather than at the exchange rates ruling on the balance sheet date. This change in accounting policy has not any material effect on the results for the current and prior accounting years.

**c) Cash flow statements**

Under SSAP 15 (Revised), cash flows are classified by operating, investing and financing activities and cash flows of overseas operations are translated at the rate prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date.

**d) Employee benefits**

SSAP 34 prescribes the accounting treatment and disclosures for employee benefits. Adoption of this SSAP has not had any material effect on the results for the current and prior accounting years.

Comparative figures have been reclassified to conform with the revised presentation arising from the adoption of these SSAPs.

**2. TURNOVER AND OTHER REVENUE**

Turnover represents the gross proceeds received and receivable derived from the sales of watches, investment securities, property rental and provision of programming service and is summarized as follows:

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Turnover		
Sales of watches	<b>213,630</b>	182,039
Rental income		
Investment properties	<b>4,443</b>	3,967
Others	<b>615</b>	570
	<b>5,058</b>	4,537
Investment securities	<b>21,980</b>	-
Programming service	<b>4,928</b>	2,784
	<b>245,596</b>	189,360
Other revenue		
Interest income from other than short-term bank deposits	<b>331</b>	886
Interest income from short-term bank deposits	<b>626</b>	1,420
Surplus arising from increase in value of properties held for resale	<b>-</b>	1,399
Repair income and others	<b>7,475</b>	5,694
	<b>8,432</b>	9,399
	<b>254,028</b>	198,759

## 3. SEGMENT INFORMATION

The turnover and contribution to operating loss of the Group for the year ended 31st March, 2003 analyzed by business segments and by geographical segments are as follows:

## i) Business segment

Details of the segment information by business segments are as follows:

	Year ended 31st March, 2003						
	Sales of watches HK\$'000	Property-related business HK\$'000	Investment securities HK\$'000	Programming service HK\$'000	Corporate HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Segment revenue							
– External sales	213,630	5,058	21,980	4,928	–	–	245,596
– Inter-segment sales	–	135	–	36	–	(171)	–
	<u>213,630</u>	<u>5,193</u>	<u>21,980</u>	<u>4,964</u>	<u>–</u>	<u>(171)</u>	<u>245,596</u>
Segment results	<u>(3,884)</u>	<u>3,805</u>	<u>(469)</u>	<u>(6,022)</u>	<u>121</u>	<u>–</u>	<u>(6,449)</u>
Finance costs							(1,352)
Other expenses	(55)	–	–	(30)	(26,965)	–	(27,050)
Share of results of an associate	–	–	–	(782)	–	–	(782)
Loss before taxation							(35,633)
Taxation							(240)
Loss after taxation							(35,873)
Minority interests							3,580
Net loss for the year							<u>(32,293)</u>

## i) Business segment (Continued)

	Year ended 31st March, 2002						
	Sales of watches HK\$'000	Property-related business HK\$'000	Investment securities HK\$'000	Programming service HK\$'000	Corporate HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Segment revenue							
– External sales	182,039	4,537	–	2,784	–	–	189,360
– Inter-segment sales	–	135	–	487	–	(622)	–
	<u>182,039</u>	<u>4,672</u>	<u>–</u>	<u>3,271</u>	<u>–</u>	<u>(622)</u>	<u>189,360</u>
Segment results	<u>5,391</u>	<u>3,858</u>	<u>(1,316)</u>	<u>(4,307)</u>	<u>(1,336)</u>	<u>–</u>	<u>2,290</u>
Finance costs							(1,388)
Other expenses	(61)	(264)	–	(26)	(1,604)	–	(1,955)
Share of results of an associate	–	–	–	(1,082)	–	–	(1,082)
Loss before taxation							(2,135)
Taxation							(179)
Loss after taxation							(2,314)
Minority interests							2,466
Net profit for the year							<u>152</u>

ii) **Geographical segment**

Details of the segment information by geographical segments are as follows:

	Year ended 31st March,			
	2003	2003	2002	2002
	Segment revenue HK\$'000	Contribution to operating profit (loss) HK\$'000	Segment revenue HK\$'000	Contribution to operating profit (loss) HK\$'000
The Mainland China, excluding Hong Kong	233,751	16	181,275	10,292
Hong Kong	3,274	(3,413)	3,711	(5,466)
Others	8,571	(3,052)	4,374	(2,536)
	<u>245,596</u>		<u>189,360</u>	
(Loss) Profit from operations		<u>(6,449)</u>		<u>2,290</u>
<b>4. OTHER OPERATING EXPENSES, NET</b>				
			2003 HK\$'000	2002 HK\$'000
Provision for bad and doubtful debts			3,944	1,554
Provision for diminution in value of properties held for resale			454	-
Provision for slow-moving inventories			8,685	4,635
Net unrealized loss on revaluation of investments in securities			873	1,121
Written back of provision for bad and doubtful debts			(59)	(696)
Written back of trade and other payables			(4,910)	(6,409)
			<u>8,987</u>	<u>205</u>
<b>5. FINANCE COSTS</b>				
			2003 HK\$'000	2002 HK\$'000
Interest payable on:				
Bank loans and overdrafts wholly repayable within five years			1	5
Convertible notes			379	379
Other loan			-	32
			<u>380</u>	<u>416</u>
Convertible notes:				
Amortization of premium on redemption			972	972
Total borrowing costs			<u>1,352</u>	<u>1,388</u>
<b>6. OTHER EXPENSES</b>				
			2003 HK\$'000	2002 HK\$'000
Impairment loss recognized in respect of investment securities			2,285	-
Impairment loss recognized in respect of goodwill			20,977	-
Impairment loss recognized in respect of leasehold properties			-	1,441
Write off of fixed assets			55	64
Amortization of goodwill			1,821	1,593
Exchange reserve transferred to income statement upon liquidation of a subsidiary			1,912	-
Profit on liquidation of subsidiaries			-	(1,143)
			<u>27,050</u>	<u>1,955</u>

**7. LOSS BEFORE TAXATION**

Loss before taxation has been arrived at after crediting and charging the following:

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Crediting:		
Gross gain on sales of investments in securities – other investments	649	–
Dividend from listed securities	<u>30</u>	<u>–</u>
Charging:		
Depreciation on owned fixed assets	4,086	5,626
Amortization on		
Goodwill	1,821	1,593
Computer software	70	211
Impairment loss recognized in respect of leasehold properties	–	1,441
Impairment loss recognized in respect of investment securities	2,285	–
Impairment loss recognized in respect of goodwill	<u>20,977</u>	<u>–</u>

**8. TAXATION**

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
The charge comprises:		
Taxation in other jurisdictions of the		
Company and its subsidiaries	<u>240</u>	<u>179</u>

No provision for Hong Kong Profits Tax has been made for the year as the Company and its subsidiaries operating in Hong Kong have no assessable profit during the year under review. Hong Kong Profits Tax is calculated at 16% (2002: 16%) of the estimated assessable profit for the year.

Taxation in other jurisdictions has been calculated at the rates prevailing in the respective jurisdictions.

**9. DIVIDEND**

The Directors do not recommend the payment of a dividend for the year ended 31st March, 2003 (2002: Nil).

**10. (LOSS) EARNINGS PER SHARE**

The calculation of the basic (loss) earnings per share is computed based on the following data:

	<b>2003</b>	2002
(Loss) Earnings		
(Loss) earnings for the purpose of basic (loss) earnings per share	<u>HK\$(32,293,000)</u>	<u>HK\$152,000</u>
Number of shares		
Weighted average number of shares for the purpose of basic (loss) earnings per share	<u>333,719,516</u>	<u>328,541,434</u>
Basic (loss) earnings per share	<u>(9.68 cents)</u>	<u>0.05 cent</u>

No disclosure of the diluted loss per share for the year under review with comparative diluted earnings per share for the previous year is shown as the issue of potential ordinary shares during both years from the exercise of the outstanding share options and convertible notes will be anti-dilutive.

**11. RESERVES**

	Share premium HK\$'000	Investment property revaluation reserve HK\$'000	Other property revaluation reserve HK\$'000	Currency translation reserve HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1st April 2002	84	3,456	678	1,113	156,970	(336,868)	(174,567)
Deficit arising from valuation of investment properties	-	(1,295)	-	-	-	-	(1,295)
Reclassification	-	95	(95)	-	-	-	-
Excess depreciation on revalued properties	-	-	(13)	-	-	13	-
Exchange differences arising from translation of financial statements of operation outside Hong Kong	-	-	-	1,228	-	-	1,228
Exclusion of a subsidiary from consolidation upon liquidation	-	-	-	1,912	-	-	1,912
Loss for the year	-	-	-	-	-	(32,293)	(32,293)
Balance at 31st March 2003	<u>84</u>	<u>2,256</u>	<u>570</u>	<u>4,253</u>	<u>156,970</u>	<u>(369,148)</u>	<u>(205,015)</u>

**12. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with the current year's presentation.

**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.

**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 Notes 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 announcement.

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) 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-performed 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 profitabilities.

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 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.

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 (2002: HK\$4 million) represented an increase of 25%. 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.

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 a 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.

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 our 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 an 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 see still 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 Guangdong 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.

### **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.

### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

### **CORPORATE GOVERNANCE**

During the year under review, in the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the non-executive director and independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's By-laws.

### **EXPRESSION OF GRATITUDE**

The Board would like to take this opportunity to express its profound gratitude to all staff members, shareholders, bankers, customers, suppliers and professional bodies for the sincere support they have rendered the Group to date.

### **PUBLICATION OF DETAILED ANNUAL RESULTS ON THE STOCK EXCHANGE OF HONG KONG LIMITED'S WEBSITE**

All the information of the annual results of the Group for the year ended 31st March, 2003 required by paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

On behalf of the Board  
**SUM Pui Ying, Adrian**  
*Secretary*

Hong Kong SAR, 18th July, 2003

## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an annual general meeting of the Company will be held at Cypress Room, 2nd Floor, Novotel Century Harbourview Hotel, 508 Queen's Road West, Western District, Hong Kong on Friday, the 19th day of September, 2003 at 10:30 a.m. for the following purposes:

1. To receive and consider the financial statements and the reports of the directors and auditors for the year ended 31st March, 2003.
2. To re-elect directors and authorize the Board to fix the remuneration of directors.
3. To appoint auditors and authorize the Board to fix their remuneration.

By Order of the Board  
**SUM Pui Ying, Adrian**  
*Secretary*

Hong Kong SAR, 18th July, 2003

*Notes:*

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
2. To be valid, a proxy form, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the head office and principal place of business of the Company at Units 1701-2 & 8-10, 17th Floor, Dominion Centre, 43-59 Queen's Road East, Wanchai, Hong Kong not less than forty-eight hours before the appointed time for holding the meeting or any adjournment thereof.

Please also refer to the published version of this announcement in The Standard dated on 21-07-2003.