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## INTRODUCTION

Asia Commercial Holdings Limited (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 HIGHLIGHTS:

- Not taking into account of the redemption of those debt securities upon maturity amounting to approximately HK\$10 million in the previous period, the turnover for the six months ended 30th September, 2003 was increased by approximately HK\$3 million to HK\$113 million, representing an increase of approximately 3%.
- During the period, a receipt of the further consideration under the disposal of the Lakeview Project amounting to approximately HK\$47 million (the "Receipt") has been received. The Receipt has been accounted for as a gain in this report. The short-term bank deposits and the shareholders' fund were increased by the same amount accordingly.
- For the six months ended 30th September, 2003, the profit attributable to shareholders amounted to approximately HK\$45 million after taking into account of the aforesaid Receipt.
- As at 30th September, 2003, the Group maintained a net current asset position of approximately HK\$184 million, which includes short-term bank deposits, bank balances and cash of approximately HK\$114 million. The current ratio was 4.0 times.
- The Board does not recommend the payment of an interim dividend for the six months ended 30th September, 2003.

## INTERIM RESULTS

The Board of Directors (the "Board") of Asia Commercial Holdings Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30th September, 2003 with the comparative figures are set out as follows:

### Condensed Consolidated Income Statement

		<b>Six months ended</b>	
		<b>30th September,</b>	
		<b>2003</b>	2002
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
		<b>(unaudited)</b>	(unaudited)
TURNOVER	2	<b>112,844</b>	119,844
COST OF SALES		<b>(71,615)</b>	(83,075)
GROSS PROFIT		<b>41,229</b>	36,769
OTHER REVENUE	2	<b>3,874</b>	4,053
DISTRIBUTION COSTS		<b>(31,804)</b>	(31,556)
ADMINISTRATIVE EXPENSES		<b>(8,872)</b>	(6,114)
OTHER OPERATING EXPENSES, NET	3	<b>(5,277)</b>	(8,614)
LOSS FROM OPERATIONS		<b>(850)</b>	(5,462)
FINANCE COSTS	4	<b>(686)</b>	(675)
OTHER INCOME/(EXPENSES), NET	5	<b>46,867</b>	(910)
SHARE OF RESULTS OF AN ASSOCIATE		<b>(458)</b>	(401)
PROFIT/(LOSS) BEFORE TAXATION	6	<b>44,873</b>	(7,448)
TAXATION	7	<b>(50)</b>	(36)
PROFIT/(LOSS) AFTER TAXATION		<b>44,823</b>	(7,484)
MINORITY INTERESTS		<b>490</b>	1,718
NET PROFIT/(LOSS) FOR THE PERIOD		<b>45,313</b>	(5,766)
ACCUMULATED LOSSES BROUGHT FORWARD		<b>(369,148)</b>	(336,868)
EXCESS DEPRECIATION ON REVALUED PROPERTIES		<b>6</b>	6
ACCUMULATED LOSSES CARRIED FORWARD		<b>(323,829)</b>	(342,628)
EARNINGS/(LOSS) PER SHARE	8		
INCLUDING THE RECEIPT OF FURTHER CONSIDERATION FROM THE DISPOSAL OF LAKEVIEW PROJECT:			
BASIC		<b><u>13.58 cents</u></b>	<u>(1.73 cents)</u>
DILUTED		<b><u>13.49 cents</u></b>	<u>N/A</u>
EXCLUDING THE RECEIPT OF FURTHER CONSIDERATION FROM THE DISPOSAL OF LAKEVIEW PROJECT:			
BASIC		<b><u>(0.61 cent)</u></b>	<u>(1.73 cents)</u>

## Condensed Consolidated Balance Sheet

		<b>30th September, 2003</b>	31st March, 2003
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(unaudited)</b>	<b>(audited)</b>
<b>ASSETS</b>			
Non-current assets			
Intangible assets	9	<b>11,596</b>	12,020
Interest in an associate		<b>1,505</b>	1,963
Fixed assets	10	<b>48,476</b>	47,905
Investments in securities – investment securities		<b>984</b>	984
		<b>62,561</b>	62,872
Current assets			
Properties held for resale		<b>14,846</b>	14,483
Inventories – goods for resale		<b>80,642</b>	78,091
Investments in securities – other investments		<b>8,540</b>	5,794
Trade and other receivables, deposits and prepayments	11	<b>27,536</b>	23,056
Short-term bank deposits		<b>89,696</b>	54,920
Bank balances and cash		<b>24,515</b>	12,690
		<b>245,775</b>	189,034
<b>LIABILITIES</b>			
Current liabilities			
Trade and other payables and accrued charges	12	<b>61,437</b>	53,201
Taxation payable		<b>45</b>	–
		<b>61,482</b>	53,201
Net current assets		<b>184,293</b>	135,833
Total assets less current liabilities		<b>246,854</b>	198,705
Non-current liabilities			
Rental received in advance		<b>1,932</b>	1,957
Convertible notes		<b>69,750</b>	69,075
		<b>71,682</b>	71,032
<b>MINORITY INTERESTS</b>		<b>904</b>	(1,031)
<b>NET ASSETS</b>		<b>174,268</b>	128,704
<b>CAPITAL AND RESERVES</b>			
Share capital	13	<b>333,719</b>	333,719
Reserves		<b>(159,451)</b>	(205,015)
<b>SHAREHOLDERS' FUNDS</b>		<b>174,268</b>	128,704

## Condensed Consolidated Cash Flow Statement

	<b>Six months ended</b>	
	<b>30th September,</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(999)</b>	<b>(810)</b>
<b>NET CASH FROM/ (USED IN) INVESTING ACTIVITIES</b>	<b>45,081</b>	<b>(1,468)</b>
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>2,437</b>	<b>–</b>
	<hr/>	<hr/>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>46,519</b>	<b>(2,278)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b>67,610</b>	<b>60,265</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<b>82</b>	<b>23</b>
	<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b><u>114,211</u></b>	<b><u>58,010</u></b>
 <b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Short-term bank deposits	<b>89,696</b>	<b>48,555</b>
Bank balances and cash	<b>24,515</b>	<b>9,455</b>
	<hr/>	<hr/>
	<b><u>114,211</u></b>	<b><u>58,010</u></b>

## Condensed Consolidated Statement of Changes in Equity

	Share capital HK\$'000 (unaudited)	Share premium HK\$'000 (unaudited)	Investment property revaluation reserve HK\$'000 (unaudited)	Other property revaluation reserve HK\$'000 (unaudited)	Currency translation reserve HK\$'000 (unaudited)	Capital reserve HK\$'000 (unaudited)	Accumulated losses HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
Balance at 1st April, 2002	333,719	84	3,456	678	1,113	156,970	(336,868)	159,152
Exchange differences arising from translation of financial statements of operation outside Hong Kong	-	-	-	-	622	-	-	622
Net gains not recognized in the income statement	-	-	-	-	622	-	-	622
Reclassification	-	-	126	(126)	-	-	-	-
Excess depreciation on revalued properties	-	-	-	(6)	-	-	6	-
Net loss for the period	-	-	-	-	-	-	(5,766)	(5,766)
Balance at 30th September, 2002	333,719	84	3,582	546	1,735	156,970	(342,628)	154,008
Deficit arising from valuation of investment properties	-	-	(1,295)	-	-	-	-	(1,295)
Exchange differences arising from translation of financial statements of operation outside Hong Kong	-	-	-	-	606	-	-	606
Exclusion of a subsidiary from consolidation upon liquidation	-	-	-	-	1,912	-	-	1,912
Net gains/(losses) not recognized in the income statement	-	-	(1,295)	-	2,518	-	-	1,223
Reclassification	-	-	(31)	31	-	-	-	-
Excess depreciation on revalued properties	-	-	-	(7)	-	-	7	-
Net loss for the period	-	-	-	-	-	-	(26,527)	(26,527)
Balance at 31st March, 2003	333,719	84	2,256	570	4,253	156,970	(369,148)	128,704
Exchange differences arising from translation of financial statements of operation outside Hong Kong	-	-	-	-	251	-	-	251
Net gains not recognized in the income statement	-	-	-	-	251	-	-	251
Excess depreciation on revalued properties	-	-	-	(6)	-	-	6	-
Net profit for the period	-	-	-	-	-	-	45,313	45,313
Balance at 30th September, 2003	<u>333,719</u>	<u>84</u>	<u>2,256</u>	<u>564</u>	<u>4,504</u>	<u>156,970</u>	<u>(323,829)</u>	<u>174,268</u>

## Segment Information

### a) Business Segment

The Group reports its primary segment information on its principal business segments and details for the six months ended 30th September, 2003 together with comparative figures for the previous period are as follows:

	Six months ended 30th September, 2003						Consolidated HK\$'000 (unaudited)
	Sales of watches HK\$'000 (unaudited)	Property- related business HK\$'000 (unaudited)	Investment securities HK\$'000 (unaudited)	Programming service HK\$'000 (unaudited)	Corporate HK\$'000 (unaudited)	Elimination HK\$'000 (unaudited)	
Segment Revenue							
- External sales	108,800	2,412	-	1,632	-	-	112,844
- Inter-segment sales	-	-	-	666	-	(666)	-
	<u>108,800</u>	<u>2,412</u>	<u>-</u>	<u>2,298</u>	<u>-</u>	<u>(666)</u>	<u>112,844</u>
Segment Results	<u>830</u>	<u>1,154</u>	<u>2,790</u>	<u>(1,347)</u>	<u>(4,277)</u>	<u>-</u>	<u>(850)</u>
Finance costs							(686)
Other income/(expenses), net	(43)	47,361	-	(42)	(409)	-	46,867
Share of results of an associate	-	-	-	(458)	-	-	(458)
Profit before taxation							44,873
Taxation							(50)
Profit after taxation							44,823
Minority interests							490
Net profit for the period							<u>45,313</u>

## Segment Information (Continued)

## a) Business Segment (Continued)

Six months ended 30th September, 2002

	Sales of watches HK\$'000 (unaudited)	Property- related business HK\$'000 (unaudited)	Investment securities HK\$'000 (unaudited)	Programming service HK\$'000 (unaudited)	Corporate HK\$'000 (unaudited)	Elimination HK\$'000 (unaudited)	Consolidated HK\$'000 (unaudited)
Segment Revenue							
– External sales	103,841	2,512	10,570	2,921	–	–	119,844
– Inter-segment sales	–	68	–	31	–	(99)	–
	<u>103,841</u>	<u>2,580</u>	<u>10,570</u>	<u>2,952</u>	<u>–</u>	<u>(99)</u>	<u>119,844</u>
Segment Results	<u>(2,464)</u>	<u>949</u>	<u>(1,555)</u>	<u>(2,783)</u>	<u>391</u>	<u>–</u>	<u>(5,462)</u>
Finance costs							(675)
Other expenses	–	–	–	(15)	(895)	–	(910)
Share of results of an associate	–	–	–	(401)	–	–	(401)
Loss before taxation							(7,448)
Taxation							(36)
Loss after taxation							(7,484)
Minority interests							1,718
Net loss for the period							<u>(5,766)</u>



## Segment Information (Continued)

### b) Geographical Segment

An analysis of the Group's turnover and contribution to operating loss by geographical segments for the period under review and comparative information for the previous period is as follows:

	Six months ended 30th September,			
	2003		2002	
	Segment revenue <i>HK\$'000</i> (unaudited)	Contribution to operating loss <i>HK\$'000</i> (unaudited)	Segment revenue <i>HK\$'000</i> (unaudited)	Contribution to operating loss <i>HK\$'000</i> (unaudited)
The People's Republic of China ("PRC"), excluding Hong Kong	109,272	2,342	114,197	(1,458)
Hong Kong	693	(4,413)	2,187	(719)
Others	2,879	1,221	3,460	(3,285)
	<u>112,844</u>		<u>119,844</u>	
Loss from operations		<u>(850)</u>		<u>(5,462)</u>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

These unaudited consolidated interim accounts are prepared in accordance with SSAP 25 – “Interim financial reporting” issued by the Hong Kong Society of Accountants (“HKSA”) and Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These condensed interim accounts should be read in conjunction with the 2003 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31st March, 2003 except that the Group has adopted SSAP 12 (revised) – “Income taxes” issued by the HKSA which is effective for accounting periods commencing on or after 1st January, 2003.

Under SSAP 12 (revised), deferred taxation must be provided for in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities (i.e. amounts attributed to those assets and liabilities for taxation purposes) and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Prior to the adoption of SSAP 12 (revised), the Group’s accounting policy on deferred taxation was to account for it at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future.

The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods and, accordingly, no prior period adjustment is required.

**2. TURNOVER AND OTHER REVENUE**

	<b>Six months ended 30th September,</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Turnover		
Sales of watches	<b>108,800</b>	103,841
Rental income		
Investment properties	<b>1,985</b>	2,206
Land and buildings	<b>147</b>	155
Others	<b>280</b>	151
	<b>2,412</b>	2,512
Investment securities	–	10,570
Programming service	<b>1,632</b>	2,921
	<b>112,844</b>	119,844
Other revenue		
Dividend income	<b>48</b>	30
Interest income	<b>326</b>	620
Repair income and others	<b>3,500</b>	3,403
	<b>3,874</b>	4,053
	<b>116,718</b>	123,897

**3. OTHER OPERATING EXPENSES, NET**

	<b>Six months ended 30th September,</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Provision for bad and doubtful debts	<b>(121)</b>	(1,971)
Provision for diminution in value of properties held for resale	–	(454)
Provision for slow-moving inventories	<b>(8,137)</b>	(6,924)
Net unrealized gain/(loss) on revaluation of investments in securities	<b>2,775</b>	(1,721)
Written back of trade and other payables	<b>206</b>	2,456
	<b>(5,277)</b>	(8,614)

**4. FINANCE COSTS**

	<b>Six months ended 30th September,</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Interest payable on:		
Bank overdrafts	11	–
Convertible notes	189	189
	<u>200</u>	<u>189</u>
Convertible notes:		
Amortization of premium on redemption	486	486
Total borrowing costs	<u><b>686</b></u>	<u><b>675</b></u>

**5. OTHER INCOME/(EXPENSES), NET**

	<b>Six months ended 30th September,</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Write off of fixed assets	(70)	–
Amortization of goodwill	(424)	(910)
Receipt of further consideration from the disposal of Lakeview Project	47,361	–
	<u><b>46,867</b></u>	<u><b>(910)</b></u>

**6. PROFIT/(LOSS) BEFORE TAXATION**

Profit/(loss) before taxation has been arrived at after crediting/charging:

	<b>Six months ended 30th September,</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Crediting:		
Gross gain on sale of investments in securities - other investments	–	236
	<u><b>–</b></u>	<u><b>236</b></u>
Charging:		
Depreciation/amortization		
On leasehold properties and other fixed assets	1,687	2,228
On computer software	–	70
	<u><b>1,687</b></u>	<u><b>2,298</b></u>

## 7. TAXATION

	<b>Six months ended 30th September,</b>	
	<b>2003</b> <i>HK\$'000</i> <b>(unaudited)</b>	<b>2002</b> <i>HK\$'000</i> <b>(unaudited)</b>
The charge comprises:		
Taxation in other jurisdictions of the Company and its subsidiaries	<b>50</b>	<b>36</b>

No provision for Hong Kong Profits Tax has been made for the period as the Company and its subsidiaries operating in Hong Kong have no assessable profit during the period under review. Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit for the period.

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

No recognition of the potential tax assets relating to tax losses of certain subsidiaries has been made as the recoverability of the potential deferred tax assets is uncertain.

## 8. EARNINGS/(LOSS) PER SHARE

Including the receipt of further consideration from the disposal of Lakeview Project:

The calculation of the basic and diluted earnings/(loss) per share for the six months ended 30th September, 2003 and 2002 is computed based on the following data:

	<b>Six months ended 30th September,</b>	
	<b>2003</b> <i>HK\$</i> <b>(unaudited)</b>	<b>2002</b> <i>HK\$</i> <b>(unaudited)</b>
<b>Earnings/(loss)</b>		
Net profit/(loss) for the period and earnings/(loss) for the purpose of basic earnings/(loss) per share	<b>45,313,000</b>	<b>(5,766,000)</b>
Effect of dilutive potential ordinary shares Finance costs on convertible notes	<b>675,000</b>	
Earnings for the purpose of diluted earnings per share	<b>45,988,000</b>	
	<b>Six months ended 30th September,</b>	
	<b>2003</b> <b>(unaudited)</b>	<b>2002</b> <b>(unaudited)</b>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	<b>333,719,516</b>	<b>333,719,516</b>
Effect of dilutive potential ordinary shares – Convertible notes	<b>7,199,098</b>	
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>340,918,614</b>	

**8. EARNINGS/(LOSS) PER SHARE (Continued)**

Excluding the receipt of further consideration from the disposal of the Lakeview Project:

The calculation of the additional basic loss per share for the six months ended 30th September, 2003 and 2002 is computed based on following data:

	<b>Six months ended 30th September, 2003 HK\$ (unaudited)</b>	<b>2002 HK\$ (unaudited)</b>
<b>Earnings/(loss)</b>		
Net profit/(loss) for the period	<b>45,313,000</b>	<u>(5,766,000)</u>
Adjustment for:		
Receipt of further consideration from the disposal of the Lakeview Project	<b>(47,361,000)</b>	
Loss for the purpose of basic loss per share excluding the receipt of further consideration from the disposal of the Lakeview Project	<b><u>(2,048,000)</u></b>	

**Number of shares**

Same as those details above for basic earnings/(loss) per share.

The additional basic loss per share figure is disclosed to give a clearer indication of the underlying performance of the Group.

No disclosure of the additional diluted loss per share for the period under review and the corresponding previous period is shown as the issue of potential ordinary shares during both periods from the exercise of the outstanding share options and convertible notes will be anti-dilutive.

**9. INTANGIBLE ASSETS**

	<b>Goodwill HK\$'000 (unaudited)</b>	<b>Computer software HK\$'000 (unaudited)</b>	<b>Total HK\$'000 (unaudited)</b>
<b>Six months ended 30th September, 2003</b>			
Net book values at 1st April, 2003	12,020	–	12,020
Amortization charge	(424)	–	(424)
Net book values at 30th September, 2003	<u>11,596</u>	<u>–</u>	<u>11,596</u>
At 30th September, 2003			
Cost	36,415	281	36,696
Accumulated amortization	(24,819)	(281)	(25,100)
Net book values	<u>11,596</u>	<u>–</u>	<u>11,596</u>
At 31st March, 2003			
Cost	36,415	281	36,696
Accumulated amortization	(24,395)	(281)	(24,676)
Net book values	<u>12,020</u>	<u>–</u>	<u>12,020</u>

**10. MOVEMENTS IN INVESTMENT PROPERTIES, LEASEHOLD PROPERTIES AND OTHER FIXED ASSETS**

	Investment properties HK\$'000 (unaudited)	Leasehold properties HK\$'000 (unaudited)	Other fixed assets HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
Net book values at 1st April, 2003	37,380	6,691	3,834	47,905
Reclassification	(6,100)	6,100	-	-
Additions	-	-	2,328	2,328
Write off	-	-	(70)	(70)
Depreciation	-	(165)	(1,522)	(1,687)
	<u>31,280</u>	<u>12,626</u>	<u>4,570</u>	<u>48,476</u>
Net book values at 30th September, 2003	<u>31,280</u>	<u>12,626</u>	<u>4,570</u>	<u>48,476</u>

**11. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS**

The Group allows credit period of ranging from cash on delivery to 90 days to its trade debtors. The aged analysis of trade receivables of HK\$17,252,000 (as at 31st March, 2003: HK\$13,467,000) which are included in the Group's trade and other receivables, deposits and prepayments at the reporting date is as follows:

	30th September, 2003 HK\$'000 (unaudited)	31st March, 2003 HK\$'000 (audited)
Trade receivables		
Current to 90 days	16,829	12,844
91 days to 180 days	37	156
Over 180 days	386	467
	<u>17,252</u>	<u>13,467</u>
Other receivables, deposits and prepayments	<u>10,284</u>	<u>9,589</u>
	<u>27,536</u>	<u>23,056</u>

The Company did not have any trade receivables at both reporting dates.

**12. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES**

Included in the trade and other payables and accrued charges are trade payables of HK\$15,973,000 (as at 31st March, 2003: HK\$10,676,000), the aged analysis of which at the reporting date is as follows:

	30th September, 2003 HK\$'000 (unaudited)	31st March, 2003 HK\$'000 (audited)
Trade payables		
Current to 90 days	15,170	9,511
91 days to 180 days	87	598
Over 180 days	716	567
	<u>15,973</u>	<u>10,676</u>
Other payables and accrued charges	<u>45,464</u>	<u>42,525</u>
	<u>61,437</u>	<u>53,201</u>

The Company did not have any trade payables at both reporting dates.

**13. SHARE CAPITAL**

	<b>30th September, 2003</b>	<b>Value</b>
	<b>Number</b>	<b>HK\$'000</b>
	<b>'000</b>	<b>(unaudited)</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Ordinary shares of HK\$1 each		
Authorized:		
Balance at beginning and end of the period	<u>400,000</u>	<u>400,000</u>
Issued:		
Balance at beginning and end of the period	<u>333,719</u>	<u>333,719</u>

**14. OPERATING LEASE ARRANGEMENTS*****As lessor***

As at 30th September, 2003, the Group had total future minimum lease receivables under the non-cancellable operating leases with the tenants falling due as follows:

	<b>30th September,</b>	<b>31st March,</b>
	<b>2003</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(audited)</b>
Within one year	<u>2,895</u>	3,671
In the second to fifth years inclusive	<u>6,793</u>	6,605
After the fifth year	<u>1,043</u>	1,738
	<u><u>10,731</u></u>	<u><u>12,014</u></u>

***As lessee***

As at 30th September, 2003, the Group had total future minimum lease payments under the non-cancellable operating leases falling due as follows:

	<b>30th September,</b>	<b>31st March,</b>
	<b>2003</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(audited)</b>
Within one year	<u>6,197</u>	8,231
In the second to fifth years inclusive	<u>6,311</u>	6,843
	<u><u>12,508</u></u>	<u><u>15,074</u></u>



## 15. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

- (a) As at 30th September, 2003, the Company had contingent liabilities as follows:
- (1) The Company has given corporate guarantees of HK\$11 million (as at 31st March, 2003: HK\$11 million ) to banks to secure general banking facilities granted to the Group. As at 30th September, 2003, bank guarantees given in lieu of utility deposit amounting to approximately HK\$0.4 million (as at 31st March, 2003: nil).
  - (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. Further to the Court Order made 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.

- (b) On 23rd August, 1999, the Group has 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 supplemental agreements, an amount of maximum up to HK\$76,500,000 would be made to 2 Group's subsidiaries gradually and treated as gain in the financial statements from time to time according to the time schedule in obtaining the land use rights within 10 years from the date of completion in respect of the non-vested land. The details of the Disposal are set out in the Company's circulars dated 14th December, 1998 and 23rd August, 1999. If no such land use rights are granted in respect of the non-vested land, the above-mentioned amount will not be recognized.

As at 25th August, 2003, the Purchaser has paid an amount approximately of HK\$47 million to the Company because they have obtained the land use rights certificate in respect of Phases 7 to 10 of the Lakeview Project. The receipt has been accounted for as a gain in the income statement. The short-term bank deposits and the shareholders' funds are increased by the same amount accordingly.

Further amounts may be receivable under the Disposal depending on the progress of the Purchasers in obtaining further land use rights certificates for further phases of the Lakeview Project. It cannot be ascertained at the present time the timing and amounts receivable in respect of further phases of the Lakeview Project or whether the further land use rights can be granted. Nevertheless, the Company would closely monitor the status of process of the issuance of such land use right certificate in respect of the non-vested land during the 10 years from the date of Disposal.

**16. RELATED PARTY TRANSACTIONS**

The following is a summary of the significant transactions and balances with related parties during the period under review and as at the reporting date.

- (1) Summary of income and expenses items

	<b>Income/(expenses) Six months ended 30th September,</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Interest income from a minority shareholder who is also a director, of a former subsidiary	–	129
Provision for interest receivable from the above mentioned minority shareholder of a former subsidiary	<u>–</u>	<u>(129)</u>

- (2) The balances with related parties in the balance sheet of the Group and the Company as follows:

	<b>The Group</b>		<b>The Company</b>	
	<b>30th</b>	<b>31st</b>	<b>30th</b>	<b>31st</b>
	<b>September,</b>	<b>March</b>	<b>September,</b>	<b>March</b>
	<b>2003</b>	<b>2003</b>	<b>2003</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(audited)</b>	<b>(unaudited)</b>	<b>(audited)</b>
Trade and other receivables, deposits and prepayments	<u>302</u>	<u>302</u>	<u>–</u>	<u>–</u>

The above transactions have been entered into on terms agreed by the parties concerned.

**17. COMPARATIVE FIGURES**

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### INTERIM DIVIDEND

The Board does not recommend payment of an interim dividend for the six months ended 30th September, 2003 (2002: HK\$ nil).

### FINANCIAL REVIEW

In the six months period ended 30th September, 2003, the Group reported a turnover from continuing operating of approximately HK\$113 million which is contributed from the business segments as below:

- Revenue from sale of watches was increased by HK\$5 million to approximately HK\$109 million;
- Revenue from property-related business was approximately HK\$2.4 million. This was roughly the same level as the corresponding period of last year;
- Revenue from programming service was decreased by approximately HK\$1 million to HK\$2 million;
- During the period under review, the Group maintained its investment portfolio unchanged. Therefore, there was no revenue from investment securities recorded in this period as compared to the corresponding period of last year amount to approximately HK\$10 million.

For the six months ended 30th September, 2003, the profit attributable to shareholders amounted to approximately HK\$45 million and the basic earnings per share was HK13.58 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 period. 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 six months ended 30th September, 2003 was amounted to approximately HK\$2 million (2002: loss attributable to shareholders of HK\$6 million) and the basic loss per share for the period under review was HK0.61 cent (2002: basic loss per share of HK1.73 cents).

## FINANCIAL REVIEW (Continued)

The increases in the inventories were in line with the increase in the business activities and is the normal result of the increase in sales transactions during the period under review. Due to the Company's internal prudent accounting method, the general provision of inventories has also been increased. Such general provision has no impact on the Group's cash flow. The Group's inventory turnover ratio was maintained at a sound level given the prevailing market practice.

The increased sales transacted during the period under review also contributed to the increases in trade receivables as at the report date. Also for those sales transacted via the departmental stores, it normally takes around two months for reconciliation and confirmation procedures before the departmental stores settle our trade receivables. The turnover to trade receivables ratio was maintained at a normal level during the period under review.

The External Auditors has reviewed the interim financial report in accordance with the Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" that issued by HKSA, which in turn constitutes the main part of Audit Committee's review on this Interim Report.

## LIQUIDITY AND FINANCIAL RESOURCES

During the period under review, the Group continued to maintain a solid financial structure and generally finances its operation from internal financial resources.

As at 30th September, 2003, the Group maintained a net current asset position of approximately HK\$184 million (as at 31st March, 2003: HK\$136 million) which includes short-term bank deposits, bank balances and cash of approximately HK\$114 million (as at 31st March, 2003: HK\$68 million). The increase of short-term bank deposits, bank balances and cash is mainly due to the receipt of the further consideration under the Disposal of the Lakeview Project amounted to approximately HK\$47 million on 25th August, 2003 (the "Receipt").

The liquidity of the Group, as evidenced by the current ratio (current assets/current liabilities) was 4.0 times (as at 31st March, 2003: 3.6 times), was maintained at a healthy level.

The recurring stream of cash inflow generated from watch retailing business accompanied with the aforesaid Receipt are the main reasons that the Group maintained a good liquidity position throughout the period 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 six months ended 30th September, 2003 was HK\$189,000 (2002: HK\$189,000). There is also an option granted to the holders of the Notes to cause the Company to redeem in United States dollars ("US\$") at a fixed exchange rate of SFr.1.00 = US\$0.67933 any Note on 23rd February, 2008 at a redemption price of 117.375% of its principal amount together with interest accrued up to the date of redemption. Amortization of premium on redemption charged for the six months ended 30th September, 2003 was HK\$486,000 (2002: HK\$486,000).

## 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 5.1% 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. Recently, the US government, under pressure to protect American jobs in the run-up to next year's presidential election, triggered a worldwide pressure on the issue of revaluation of Renminbi, 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.

## CONTINGENT LIABILITIES

As at 30th September, 2003, the Company had contingent liabilities as follows:

- (1) The Company has given corporate guarantees of HK\$11 million (as at 31st March, 2003: HK\$11 million ) to banks to secure general banking facilities granted to the Group. As at 30th September, 2003, banking guarantees given in lieu of utility deposit amounting to approximately HK\$0.4 million ( as at 31st March, 2003: nil).
- (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. Further to the Court Order made 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 30th September, 2003, certain of the Group's investment properties and leasehold properties with carrying value of approximately HK\$6.9 million (as at 31st March, 2003: HK\$13 million ) and HK\$7.5 million (as at 31st March, 2003: HK\$1.5 million) respectively were pledged to secure the general banking facilities to the extent of HK\$11 million.

As at 30th September and 31st March, 2003, the Company had not pledged any assets.

## **RECEIPT OF FURTHER CONSIDERATION FROM THE DISPOSAL OF LAKEVIEW PROJECT**

On 23rd August, 1999, the Group has 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 supplemental agreements, an amount of maximum up to HK\$76,500,000 would be made to 2 Group's subsidiaries gradually and treated as gain in the financial statements from time to time according to the time schedule in obtaining the land use rights within 10 years from the date of completion in respect of the non-vested land. The details of the Disposal are set out in the Company's circulars dated 14th December, 1998 and 23rd August, 1999. If no such land use rights are granted in respect of the non-vested land, the above-mentioned amount will not be recognized.

As at 25th August, 2003, the Purchaser has paid an amount approximately of HK\$47 million to the Company because they have obtained the land use right certificate in respect of Phases 7 to 10 of the Lakeview Project. The receipt has been accounted for as a gain in the income statement. The short-term bank deposits and the shareholders' funds are increased by the same amount accordingly.

Further amounts may be receivable under the Disposal depending on the progress of the Purchasers in obtaining further land use rights certificates for further phases of the Lakeview Project. It cannot be ascertained at the present time the timing and amounts receivable in respect of further phases of the Lakeview Project or whether the further land use rights can be granted. Nevertheless, the Company would closely monitor the status of process of the issuance of such land use right certificate in respect of the non-vested land during the 10 years from the date of Disposal.

## OPERATIONAL REVIEW

### Watch Trading and Retailing

During the period under review, we had experienced the Severe Acute Respiratory Syndrome (“SARS”) epidemic, which affected the whole world, and in particular ravaged Hong Kong and the infected cities of the Mainland China such as Beijing and Shanghai tremendously. Accordingly, the core business of our watch trading and retailing was inevitably affected. Nevertheless, our turnover in the watch retail business still recorded an unexpected minor increase of approximately HK\$5 million to HK\$109 million for the six months ended 30th September, 2003. The reasons attributable to the achieved results are mainly as below:

Firstly, via various persistent marketing activities such as membership program and after-sales service, our retail chain has built up a valuable client contact database through our long time relationship with customers. This coupled with the high professional standards of our sales and marketing team and our persistent proven high quality of service, we earn our clients’ satisfaction as well as loyalty. TIME CITY is in a well position to capture the release of the pent-up demand following the subsidence of the SARS impact.

Secondly, during the period under review, in order to provide commodities with a wide range of famous brands to meet our customers’ increasing standard of demand in a proactive way, TIME CITY provides medium price range city life style watches under our own brand ACCORD so as to supplement our existing inventory mix in the retail chain. Apart from the watches, fashion style jewellery under the name of ACCORD has also been launched in certain strategic outlets. All these coupled with the management information provided by our point of sales system enables TIME CITY reacts to each local market and customers’ preference promptly.

Nevertheless, the first half of the financial year is another difficult but challenge period to TIME CITY.

Though the turnover of TIME CITY has bounced back to the pre-SARS level, the outbreak of SARS itself has fuelled the fierce market competition. During the SARS period, consumer spending, tourist industry and business travel over the Mainland China esp. the infected cities have been hit severely. Many market players esp. the domestic players experienced the strong cash flow pressure that exerted by the increased inventories. In order to cash in their inventory on hand and ease their liquidity pressures, they adopt very aggressive pricing strategy when the SARS ends. As a result, the fierce competition that flooding in the market is intensified and the market gross profit margin is under greater pressures.



## **OPERATIONAL REVIEW (Continued)**

### **Watch Trading and Retailing (Continued)**

Furthermore, as a result of continuous prospective economic development, the inflationary effect in the operating cost was obvious. This is clearly reflected in the rental expenses and staff costs. In order to keep the good personnel, TIME CITY's staff costs are maintained at a high level throughout the period. In order to maintain our outlets at the prime location of major city, TIME CITY has to compete directly not only with the competitors in watch retail business, but also with other high-end consumer retailing businesses, such as cosmetic, fashion and leather products in the shopping malls at the prime location. As a result, the rental expenses were kept increasing and causing an adverse impact on the income statement.

Through the proven result of our long period of presence in the market, TIME CITY gains the well recognition in the high-end market in the Mainland China. Like other well-known companies, some upstarts update their standard of quality and management by imitating as well as resemble our logo with an aim to significantly lower their barriers of entry to the retail business. Although we have taken the necessary measures including legal action, to protect the Company's intellectual property right, the Board anticipates that such infringement of our trademark "TIME CITY" inevitably affected our business growth.

### **Securities Investment**

During the period under review, the global securities market has been hit hard by the SARS outbreak. Fortunately, the impact of SARS on the global securities market had been short and slight. Expectation of the strong economic outlook, rising consumer confidence and soaring properties market in the US and the continued export-led recovery in the Asian countries helped propel the global securities prices up to the date of this report. As at 30th September, 2003, a net unrealized gain on revaluation of approximately HK\$2.8 million in relation to the Group's securities investment has been credited 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\$6 million as at 31st March, 2003 to approximately HK\$9 million as at 30th September, 2003.

## **OPERATIONAL REVIEW (Continued)**

### **Properties Investment**

Gross rental income generated from properties investment for the six months ended 30th September, 2003 amounted to approximately HK\$2.4 million (2002: HK\$2.5 million). 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 six months ended 30th September, 2003, our Swiss office recorded a loss amounted to approximately HK\$0.3 million (2002: loss of HK\$0.9 million). The Board considered to formulate a long term moderate business strategy so as to reposition our prestigious watch brand JUVENIA with a more fashion and elegance image in the Far East. 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.

### **Programming Service Provider**

Information regarding the current development of major areas of programming services and software components and products are similar to those that have been disclosed in details in the annual report 2003. During the six months ended 30th September, 2003, the revenue of our programming service has been hit bitterly by the SARS outbreak, the Iraq war and terror attacks. The revenue and result from the programming service provider during the period under review amounted to approximately HK\$2 million and HK\$1 million respectively. Amid the simmering trade tension between the US and China, the outbreak of SARS has further weakened the motive of US Information Technology (I.T.) customers to outsource their I.T. tasks to the China-based programming companies. This is particularly discouraging to our business model.

## **OPERATIONAL REVIEW (Continued)**

### **Programming Service Provider (Continued)**

As stated in the annual report 2003, 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, for computer software is colossal in the longer term perspective. Prior to the entering into the I.T. industry in year 2001, the Board has predetermined, among other things, to closely monitor its performance and then makes appropriate adjustment to its business investment strategy, including its accounting policies as required. After taking into account of, among other things, the prevailing market conditions, global economic uncertainties and an independent valuation prepared by a professional valuer, the Group had recognized an impairment for goodwill in respect of our interest in the Programming Service Provider of approximately HK\$21 million so as to furnish a prudent position of such investment to our shareholders as at 31st March, 2003. Such impairment has no impact on the operations, cash flows, business development as well as revenue of both our programming service business and the Group but laid a good foundation for the sound financial management of the Group as a whole.

### **SHARE OPTION SCHEME**

The Company's 1997 Share Option Scheme was adopted pursuant to a resolution passed on 15th September, 1997 (the "1997 Share Option Scheme") and expired on 15th September, 2000. On 20th September, 2002, the shareholders of the Company approved the adoption of a new share option scheme (the "2002 Share Option Scheme"). The purpose of the 2002 Share Option Scheme is to encourage qualifying grantees to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. Qualifying grantees of the 2002 Share Option Scheme means (i) any employee including officer and director or any business-related consultant, agent, representative or adviser of the Company or any subsidiary or any affiliate; or (ii) any supplier, agent or consultant who provide goods or services to the Company or any subsidiary or any affiliate; or (iii) any customer of the Company or any subsidiary or any affiliate; or (iv) any business ally or joint venture partner of the Company or any subsidiary or any affiliate.

As at 30th September, 2003, options to subscribe for a total of 7,400,000 option shares were still outstanding under the 1997 Share Option Scheme. No options have been granted under the 2002 Share Option Scheme.

**SHARE OPTION SCHEME (Continued)**

Details of the options, which have been granted and exercised under the 1997 Share Option Scheme, during the period are listed below in accordance with Rule 17.07 of the Listing Rules:

	<b>Number of options held at 01/04/2003 &amp; 30/09/2003</b>	<b>Exercise price</b>	<b>Grant date</b>	<b>Exercise period</b>
<b>1. Directors</b>				
Leung Chung Ping, Owen	3,000,000	HK\$1.00	24/09/1997	24/09/1997- 14/09/2007
Sum Pui Ying, Adrian	3,000,000	HK\$1.00	24/09/1997	24/09/1997- 14/09/2007
<b>2. Continuous Contract Employees</b>	1,400,000	HK\$1.00	24/09/1997	24/09/1999- 14/09/2007
	<hr style="width: 100%; border: 0.5px solid black;"/>			
	<u><u>7,400,000</u></u>			

No option was granted, exercised, cancelled or lapsed during the six months ended 30th September, 2003.

In the opinion of the Board, any valuation of the options granted based on any option pricing model is not appropriate and meaningful to the shareholders, taking into account of number of variables which are crucial for the calculation of the option value which have not been determined.

The options granted are exercisable in accordance with the terms and restrictions contained in the respective offer letters.

## EMPLOYEE

As at 30th September, 2003, the Group has around 500 employees about 92.5% of which are working in the PRC, mainly for the watch retailing business. Apart from the frontline colleagues, more staff come from different discipline of professionals such as product design, sales and marketing and brand development have been recruited during the six months ended 30th September, 2003 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 six months ended 30th September, 2003 was amounted to approximately HK\$13 million (2002: HK\$13 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 Group engages in various lines of businesses such as information technology business, brands business in which human talent are the most important value of the business. The Board regards the human resources as invaluable asset for the Group's current achievement and future development. It is the Group's human resources policy to provide equal opportunity and high motivation to all its employees.

## PROSPECTS

### Watch Trading and Retailing

Though concerns regarding the tension across the Taiwan Strait after Taiwan's referendum legislation and the potential trade war between the US and China cast short term uncertainties to the China's business outlook, the Board anticipates that the uncertainties will be lifted after the next year's US presidential election ends. According to the recent statistics released, China records its economy grow at 9.1% for the period from July to September, 2003 and is on track to rise by 8.5% for the whole year, compared with a government growth target of 7%. We target China as our major market as China market offers charming business opportunities with stimulation from the central government, the private sector as well as the foreign direct investments.

## **PROSPECTS (Continued)**

### **Watch Trading and Retailing (Continued)**

Nevertheless as stated in the annual report 2003, among other things, the signing of The Closer Economic Partnership Arrangement significantly lowers the barriers for Hong Kong enterprises to tap the mainland market. The Board anticipates that competition of retail business in the Mainland China will become more and more intensive in the coming years.

Furthermore, the easing of restrictions on individual tourists along with local banks offering Renminbi services which in turn channels and facilitates more and more mainland customers to Hong Kong retail shops. According to recent statistics released, about two-thirds of the growing number of mainland visitors came from Guangdong and the rest were from Shanghai or Beijing. As a result, TIME CITY like other retailers in the Mainland China, now faces direct competition with Hong Kong retail shops.

The Group will expand the flagship shops concept in the Mainland China during the coming years. An 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. Smaller format shops are replaced by flagship shops. These flagship shops allow customers to browse through a wide variety of products under one roof. The improvement in store displays and layouts will be continued. Unique, custom-designed fixtures are developed and updated in order to provide a pleasant environment for customers. 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. Also, via partnership with suppliers, TIME CITY will continuously launch large-scale advertising and promotion campaigns, such as the ones in Beijing and Shanghai recently.

One of the long term developments over the period was the moderate expansion of our own brands, ACCORD and JUVENIA. TIME CITY will continue to enhance the brand image of ACCORD and JUVENIA by establishing more independent image counters and image shops in 2004. Besides, the introduction of jewellery will definitely provide another golden opportunity for TIME CITY to broaden the existing customer base. We believe that our own brands will remain on track to expand in the Mainland China, both in market penetration and in brand recognition. The Board takes the view that the potential market in the PRC for a medium price range watch and jewellery brand is tremendous. The Company has plans to allocate more resources in brands promotion which will form the synergy with our retail business.

## **PROSPECTS (Continued)**

### **Watch Trading and Retailing (Continued)**

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.

### **Programming Service Provider**

The US economy is showing a robust growth of 7.2% in the third quarter, along with increased corporate IT spending and investment. Though there are still uncertainties cast doubt on the short term prospect of the industry, the global trend for outsourcing programming services over the firm's carry out in-house itself is irreversible.

Moreover, after taking into account of China's continued economic grow and its bright long term business outlook, its future I.T. market is bright even though the current I.T. market in the Mainland China is still premature.

Given human talent is the most important value in the I.T. business, our programming services business has established a solid linkage of the pool of I.T. multinational professionals team headed by Shanghai Forward Group, which in turn is an affiliated company to Shanghai Fudan University, enables the Group to capture the coming business opportunities in the future when the hi-tech economy boom later, in particular in the 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 our programming services business would not have any significant adverse effect on the existing core business of the Group.

## PROSPECTS (Continued)

### 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.

## DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th September, 2003, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO, are set out below:

Name of director	Number of shares held				Number of underlying ordinary shares held under equity derivatives <i>Note</i>	Total	Approximately percentage of aggregate interests to total issued share capital %
	Personal interests	Family interests	Corporate interests	Other interests			
Leung Chung Ping, Owen	20,000,000	-	-	-	3,000,000	23,000,000	6.89
Sum Pui Ying, Adrian	-	-	-	-	3,000,000	3,000,000	0.89
Wong Wang Chan	-	-	-	-	-	-	-
Leung Miu King, Marina	-	-	-	-	-	-	-
Sit Kien Ping, Peter	-	-	-	-	-	-	-
Lai Si Ming	-	-	-	-	-	-	-



## **DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)**

*Note:* This represents interests in option held by the relevant directors as beneficial owner to subscribe for the relevant underlying ordinary shares in respect of the option granted by the Company under the 1997 Share Option Scheme, details of which are set out in the section headed "Share Option Scheme".

All the interests, held by the relevant directors as beneficial owner, disclosed above represent long positions in the shares of the Company.

Saved as disclosed above, no other interests or short position in the shares, underlying shares or debentures of the Company or any associated corporations as at 30th September, 2003 were recorded in the register required to be kept under Section 352 of the SFO.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

As at 30th September, 2003, the number of outstanding options granted by the Company under the 1997 Share Option Scheme to the directors to subscribe for shares of the Company, as recorded in the register required to be kept by the Company under Section 352 of the SFO was set out in the section headed "Share Option Scheme".

Apart from the aforesaid, at no time during the six months ended 30th September, 2003 was the Company or any of its associated corporations a party to any arrangement to enable the directors or chief executives to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors or chief executives or their spouses or children under 18 years of age was granted any right to subscribe for any shares in, or debentures of, the Company or any of its associated corporations.

## SUBSTANTIAL INTERESTS IN SHARE CAPITAL

As at 30th September, 2003, the interests or short positions of every person, other than the directors or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO are set out below:

Name	Notes	Number of Shares	Approximately percentage of issued share capital %
Leung Shu Wing	1&5	55,000,000 <sup>#</sup>	16.48
Kee Shing (Holdings) Limited ("Kee Shing")	1&5	55,000,000 <sup>#</sup>	16.48
Pacific Apex International Limited ("Pacific Apex")	1&5	55,000,000 <sup>#</sup>	16.48
Leong Lou Teck	2&5	37,550,540 <sup>#</sup>	11.25
Yap Han Hoe	2&5	37,508,000 <sup>#</sup>	11.24
Galmare Investment Limited ("Galmare")	2&5	37,500,000 <sup>#</sup>	11.24
Eav Yin	3	51,239,980 <sup>#</sup>	15.35
Eav An Unit Trust		32,876,000 <sup>#</sup>	9.85
Li Ka-Shing	4	17,767,259	5.32
Li Ka-Shing Unity Trustcorp Limited	4	17,767,259	5.32
Li Ka-Shing Unity Trustee Corporation Limited	4	17,767,259	5.32
Li Ka-Shing Unity Trustee Company Limited	4	17,767,259	5.32
Cheung Kong (Holdings) Limited ("CKH")	4	17,767,259	5.32
Ivory Limited	4	17,767,259	5.32
Ebony Limited	4	17,767,259	5.32
Borneo Limited ("Borneo")	4	17,767,259	5.32

## SUBSTANTIAL INTERESTS IN SHARE CAPITAL (Continued)

Notes:

1. These shares refer to the same holding of 55,000,000 shares held by Pacific Apex. Pacific Apex is a wholly owned subsidiary of Kee Shing. Mr. Leung Shu Wing is the chairman and controlling shareholder of Kee Shing.
2. These shares include 37,500,000 shares held through Galmare. Galmare is equally owned by Mr. Leong Lou Teck and Mr. Yap Han Hoe.
3. These shares include 32,876,000 shares held by the Eav An Unit Trust, a family trust the beneficiaries of which include Mr. Eav Yin, his wife and children.
4. These shares refer to the same holding of 17,767,259 shares held by Borneo. The entire issued share capital of Borneo is held by Ebony Limited, a wholly-owned subsidiary of Ivory Limited, which in turn is a wholly-owned subsidiary of CKH.

Li Ka-Shing Unity Trustee Company Limited ("TUT1") as trustee of The Li Ka-Shing Unity Trust, together with certain companies which TUT1 as trustee of The Li Ka-Shing Unity Trust was entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, held more than one-third of the issued share capital of CKH.

Li Ka-Shing Unity Trustee Corporation Limited ("TDT1") as trustee of The Li Ka-Shing Unity Discretionary Trust ("DT1") and Li Ka-Shing Unity Trustcorp Limited ("TDT2") as trustee of another discretionary trust ("DT2") both held units in The Li Ka-Shing Unity Trust.

Mr. Li Ka-Shing is the settlor of each of DT1 and DT2 and may be regarded as a founder of each of them for the purpose of the SFO. The entire issued share capital of TUT1, TDT1 and TDT2 are owned by Li Ka-Shing Unity Holdings Limited, of which each of Mr. Li Ka-Shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard is interested in one-third of the issued share capital.

CKH, TUT1, TDT1, TDT2 and Mr. Li Ka-Shing were all deemed to be interested in these 17,767,259 shares which were taken to be interested in by Borneo under the SFO.

The capacity of the persons in which ordinary shares were held are set out as below:

- (i) Borneo holds the interests as beneficial owner;
  - (ii) Ebony Limited, Ivory Limited and CKH hold the interests through interest of controlled corporation(s);
  - (iii) TUT1 holds the interests as trustee;
  - (iv) TDT1 & TDT2 hold the interests as trustee and beneficiary of trust;
  - (v) Mr. Li Ka-Shing holds the interests through interest of controlled corporations and as founder of discretionary trusts.
5. Pursuant to a ruling by the Securities and Futures Commission dated 21st November, 1996, Kee Shing, Galmare and Mr. Leung Chung Ping, Owen ("Mr. Leung"), who is also the Chairman of the Company as at the date of this report, as parties acting in concert and on this basis, if taking into account of the 3,000,000 share options held by Mr. Leung, their aggregate long position in the share and (in respect of positions held pursuant to equity derivatives) underlying shares of the Company is approximately 115,500,000 shares, representing approximately 34.6% of the issued share capital of the Company.
- # These notifications were filed under the repealed Securities (Disclosure of Interests) Ordinance.

## **OTHER INFORMATION**

### **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 period under review.

### **CORPORATE GOVERNANCE**

During the period under review, the directors are not aware of any information which would reasonably indicate that the Company is not or was not in compliance 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 Bye-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.

By Order of the Board  
**Sum Pui Ying, Adrian**  
*Company Secretary*

Hong Kong, 19th December, 2003