ASIA COMMERCIAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 104)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2004

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, 2004 with the comparative figures are set out as follows:

Condensed Consolidated Income Statement

		Six months ended 30th September,	
		2004	2003
	Notes	***HK$'000***	*HK$'000*
		(unaudited)	*(unaudited)*
TURNOVER	*2*	**122,714**	112,844
COST OF SALES		**(73,324)**	(71,615)
GROSS PROFIT		**49,390**	41,229
OTHER REVENUE	*2*	**3,860**	3,874
DISTRIBUTION COSTS		**(41,687)**	(31,804)
ADMINISTRATIVE EXPENSES		**(6,690)**	(8,872)
OTHER OPERATING EXPENSES, NET	*3*	**(5,543)**	(5,277)
LOSS FROM OPERATIONS		**(670)**	(850)
FINANCE COSTS	*4*	**(675)**	(686)
OTHER (EXPENSES) INCOME, NET	*5*	**(9,998)**	46,867
SHARE OF RESULTS OF AN ASSOCIATE		**(69)**	(458)
(LOSS) PROFIT BEFORE TAXATION	*6*	**(11,412)**	44,873
TAXATION	*7*	**(166)**	(50)
(LOSS) PROFIT AFTER TAXATION		**(11,578)**	44,823
MINORITY INTERESTS		**306**	490
NET (LOSS) PROFIT FOR THE PERIOD		**(11,272)**	45,313
ACCUMULATED LOSSES BROUGHT FORWARD		**(336,392)**	(369,148)
EXCESS DEPRECIATION ON REVALUED PROPERTIES		**6**	6
ACCUMULATED LOSSES CARRIED FORWARD		**(347,658)**	(323,829)
(LOSS) EARNINGS PER SHARE	*8*		
INCLUDING THE RECEIPT OF FURTHER CONSIDERATION FROM THE DISPOSAL OF LAKEVIEW PROJECT:			
BASIC		**(3.38 cents)**	13.58 cents
DILUTED		**N/A**	13.49 cents
EXCLUDING THE RECEIPT OF FURTHER CONSIDERATION FROM THE DISPOSAL OF LAKEVIEW PROJECT:			
BASIC		**(3.38 cents)**	(0.61 cent)

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, 2004 together with comparative figures for the previous period are as follows:

	Six months ended 30th September, 2004						
	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	**119,692**	**2,129**	**–**	**893**	**–**	**–**	**122,714**
– Inter-segment sales	**–**	**1**	**–**	**566**	**–**	**(567)**	**–**
	119,692	**2,130**	**–**	**1,459**	**–**	**(567)**	**122,714**
Segment Results	**5,698**	**(1,375)**	**–**	**(2,106)**	**(2,887)**	**–**	**(670)**
Finance costs							**(675)**
Other expenses, net	**(2)**	**(9,766)**	**–**	**(15)**	**(215)**	**–**	**(9,998)**
Share of results of an associate	**–**	**–**	**–**	**(69)**	**–**	**–**	**(69)**
Loss before taxation							**(11,412)**
Taxation							**(166)**
Loss after taxation							**(11,578)**
Minority interests							**306**
Net loss for the period							**(11,272)**

	Six months ended 30th September, 2003						
	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	108,800	2,412	–	1,632	–	–	112,844
– Inter-segment sales	–	–	–	666	–	(666)	–
	108,800	2,412	–	2,298	–	(666)	112,844
Segment Results	830	1,154	2,790	(1,347)	(4,277)	–	(850)
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							45,313

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			
	2004		2003	
	Segment revenue	**Contribution to operating loss**	Segment revenue	Contribution to operating loss
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
	(unaudited)	***(unaudited)***	*(unaudited)*	*(unaudited)*
The People's Republic of China ("PRC"), excluding Hong Kong	**119,828**	**4,246**	109,272	2,342
Hong Kong	**795**	**(3,695)**	693	(4,413)
Others	**2,091**	**(1,221)**	2,879	1,221
	122,714		112,844	
Loss from operations		**(670)**		(850)

NOTES TO THIS ANNOUNCEMENT

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") and with the Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The accounting policies adopted in these condensed financial statements are consistent with those set out in the Group's audited financial statements for the year ended 31st March, 2004.

2. TURNOVER AND OTHER REVENUE

	Six months ended 30th September,	
	2004	2003
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
Turnover		
Sales of watches	**119,692**	108,800
Rental income		
Investment properties	**1,785**	1,985
Land and buildings	**46**	147
Others	**298**	280
	2,129	2,412
Programming service	**893**	1,632
	122,714	112,844
Other revenue		
Dividend income	**–**	48
Interest income	**222**	326
Customer services income and others	**3,638**	3,500
	3,860	3,874
	126,574	116,718

3. OTHER OPERATING EXPENSES, NET

	Six months ended 30th September,	
	2004	2003
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
Provision for bad and doubtful debts	**(789)**	(121)
Provision for slow-moving inventories	**(4,822)**	(8,137)
Net unrealized gain on revaluation of investments in securities	**–**	2,775
Written back of trade and other payables	**68**	206
	(5,543)	(5,277)

4. FINANCE COSTS

	Six months ended 30th September, 2004 HK$'000 (unaudited)	2003 HK$'000 (unaudited)
Interest payable on:		
Bank overdrafts	–	11
Convertible notes	**189**	189
	189	200
Convertible notes:		
Amortization of premium on redemption	**486**	486
Total borrowing costs	**675**	686

5. OTHER (EXPENSES) INCOME, NET

	Six months ended 30th September, 2004 HK$'000 (unaudited)	2003 HK$'000 (unaudited)
Write off of fixed assets	**(2)**	(70)
Amortization of goodwill	**(230)**	(424)
Management fee *(Note)*	**(6,013)**	–
Provision for impairment loss on leasehold property	**(747)**	–
Deficit arising from valuation of an investment property	**(3,006)**	–
Receipt of further consideration from the disposal of Lakeview Project	–	47,361
	(9,998)	46,867

Note: During the period under review, the Group's OEM manufacturing activities has been dormant. The Chinese partner of a Group's Dongguan joint venture ("Joint Venture") wanted the Group to reactive its OEM manufacturing activities in the Joint Venture. Such proposal was considered by the Group inconsistent with the Group's corporate strategy since 1997. The Chinese partner of the Joint Venture later issued a written notice dated 15th September, 2004 demanding for management fee in the previous years amounting to RMB6,374,200 (approximately HK$ 6 million). The Group does not admit the validity of the claim and has instructed PRC lawyers to handle the matter. The Directors would consider appropriate settlement proposals if those are advantageous to the Group. For the sake of prudence, the Group made a full provision for the amount claimed against the income statement and would review the provision from time to time.

6. (LOSS) PROFIT BEFORE TAXATION

(Loss) profit before taxation has been arrived at after crediting/charging:

	Six months ended 30th September, 2004 HK$'000 (unaudited)	2003 HK$'000 (unaudited)
Crediting:		
Profit on disposal of fixed asset	**79**	–
Charging:		
Depreciation	**2,234**	1,687
Provision for impairment loss on leasehold property	**747**	–
Deficit arising from valuation of an investment property	**3,006**	–
Management fee *(Note 5)*	**6,013**	–

7. TAXATION

	Six months ended 30th September, 2004 HK$'000 (unaudited)	2003 HK$'000 (unaudited)
The charge comprises:		
Taxation in other jurisdictions of the Company and its subsidiaries	**166**	50

Hong Kong Profits Tax is calculated at a rate of 17.5% of the estimated assessable profit for the period. No Hong Kong Profits Tax is provided because the assessable profits generated during the period is set off by the taxable losses carried forward.

Taxation for overseas subsidiary companies is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

Deferred tax assets have not been recognized in respect of these losses due to the unpredictability of future profit streams.

8. (LOSS) EARNINGS PER SHARE

Including the receipt of further consideration from the disposal of Lakeview Project in the previous period:

The calculation of the basic and diluted (loss) earnings per share for the six months ended 30th September, 2004 and 2003 is computed based on the following data:

	Six months ended 30th September, 2004 HK$ (unaudited)	2003 HK$ (unaudited)
(Loss) earnings		
Net (loss) profit for the period and (loss) earnings for the purpose of basic (loss) earnings per share	**(11,272,000)**	45,313,000
Effect of dilutive potential ordinary shares		
Finance costs on convertible notes		675,000
Earnings for the purpose of diluted earnings per share		45,988,000

	Six months ended 30th September, 2004 (unaudited)	2003 (unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**333,719,516**	333,719,516
Effect of dilutive potential ordinary shares – Convertible notes		7,199,098
Weighted average number of ordinary shares for the purpose of diluted earnings per share		340,918,614

Excluding the receipt of further consideration from the disposal of the Lakeview Project in the previous period:

The calculation of the additional basic loss per share for the six months ended 30th September, 2004 and 2003 is computed based on following data:

	Six months ended 30th September, 2004 HK$ (unaudited)	2003 HK$ (unaudited)
(Loss) earnings		
Net (loss) profit for the period	**(11,272,000)**	45,313,000
Adjustment for:		
Receipt of further consideration from the disposal of the Lakeview Project		(47,361,000)
Loss for the purpose of basic loss per share excluding the receipt of further consideration from the disposal of the Lakeview Project		(2,048,000)

Number of shares

Same as those details above for basic (loss) earnings 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. MOVEMENT OF SHAREHOLDERS' 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)*	Accumu-lated losses *HK$'000* *(unaudited)*	Total *HK$'000* *(unaudited)*
Balance at 1st April, 2004	333,719	84	2,466	557	4,866	156,970	(336,392)	162,270
Deficit arising from valuation of investment properties	–	–	(2,466)	–	–	–	–	(2,466)
Net off with provision for impairment loss of leasehold property	–	–	–	(289)	–	–	–	(289)
Exchange differences arising from translation of financial statements of operation outside Hong Kong	–	–	–	–	156	–	–	156
Net (loss) gains not recognized in the income statement	–	–	(2,466)	(289)	156	–	–	(2,599)
Excess depreciation on revalued properties	–	–	–	(6)	–	–	6	–
Net loss for the period	–	–	–	–	–	–	(11,272)	(11,272)
Balance at 30th September, 2004	333,719	84	–	262	5,022	156,970	(347,658)	148,399

INTERIM DIVIDEND

The Board does not recommend payment of an interim dividend for the six months ended 30th September, 2004 (2003: HK$ nil).

FINANCIAL REVIEW

In the six months period ended 30th September, 2004, the Group reported a turnover of approximately HK$123 million which is contributed from the business segments as below:

(1) Revenue from sale of watches was approximately HK$120 million. This was an increase of approximately HK$11 million (10%) when compared with the last corresponding period;

(2) Revenue from property-related business was approximately HK$2 million. This was roughly the same level as the last corresponding period; and

(3) External revenue from programming service was approximately HK$1 million. This was a decrease of approximately HK$1 million (50%) when compared with last corresponding period.

During the period under review, the Group recorded no transaction in the trading of marketable securities.

The Distribution Cost is the significant cost element apart from the Cost of Sales in the cost structure of retailing business, which the Group focuses on as the core business. The changes of the Distribution Cost affect significantly the bottom line of the Group accordingly. The Distribution Costs of the Group increased 31% from approximately HK$32 million to approximately HK$42 million during the period under review. The increase was mainly attributable, among other things, to the following factors:

(1) Along with the continued economic growth of the Mainland China, the inflow of the foreign direct investment funding that aim to capture the great business opportunities in the PRC add momentum to the property market to rally. There is a general trend of rental increases in the office premises and the shopping mall in particular in the main cities where our retail chain's outlets locate. The increases in rental expenses are mainly arisen from our retail outlets, including those shop-in-shop, which the occupancy cost is equal to a percentage of the monthly sales made through that outlet. The retail turnover increases during the period under review is also another reason accounted for the increases in rental expenses;

(2) Due to the rapid development of the service industry in the Mainland China, there are great demand for good quality and experienced staff esp. the sales and marketing staff in the retailing industry. The increases in salaries and staff benefit expenses are mainly attributable to reasons as below:

   (a) Competitive marketable packages are periodically reviewed and offered so as to retain high-performance sales and marketing staff in the retail chain;

   (b) The increased sales transacted during the period under review led to increases in commission payable; and

   (c) In order to cope with the business development, more staffing that come from different discipline of professionals such as designs, brand development and sales and marketing are recruited.

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

The Other Expenses were not arisen from the core business of the Group. During the period under review, the Other Expenses of the Group recorded an amount of approximately HK$10 million, which was mainly attributable to the following factors:

(1) During the period under review, the Group's OEM manufacturing activities has been dormant. The Chinese partner of a Group's Dongguan joint venture ("Joint Venture") wanted the Group to reactive its OEM manufacturing activities in the Joint Venture. Such proposal was considered by the Group inconsistent with the Group's corporate strategy since 1997. The Chinese partner of the Joint Venture later issued a written notice dated 15th September, 2004 demanding for management fee in the previous years amounting to RMB6,374,200 (approximately HK$ 6 million). The Group does not admit the validity of the claim and has instructed PRC lawyers to handle the matter. The Directors would consider appropriate settlement proposals if those are advantageous to the Group. For the sake of prudence, the Group made a full provision for the amount claimed against the income statement and would review the provision from time to time; and

(2) As stated above and for the sake of best practice, the above-mentioned subsidiary's investment property, which is held for rental purpose under operating leases, is revalued by DTZ Debenham Tie Leung Limited, a firm of independent professional valuers at 30th September, 2004 on open market basis. An aggregate amount of approximately HK$3.7 million in relation to a deficit arising from revaluation and an impairment loss recognized in respect of the Joint Venture's premises was provided against the income statement.

All the provisions provided under Other Expenses are not arisen from the core business of the Group and are considered to have no immediate impact on the Group's cash flow. As explained below, the Group continued to maintain a solid financial structure as at 30th September, 2004.

For the six months ended 30th September, 2004, the loss attributable to shareholders amounted to approximately HK$11.2 million compared to net profit of HK$45.3 million which after taking into account of the receipt of the partial payment under the disposal of the Lakeview Project amounting to approximately HK$47 million, for the previous period and basic loss per share for the period under review was HK3.38 cents (2003: basic earnings per share was HK13.58 cents).

Not taking into account of the aforesaid receipt, the loss attributable to shareholders for the previous period was amounted to approximately HK$2 million and the additional basic loss per share for the previous period was HK0.61 cent.

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 HKICPA, which in turn constitutes the main part of Audit Committee's review on this Interim Results.

LIQUIDITY AND FINANCIAL RESOURCES

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

As at 30th September, 2004, the Group maintained a net current asset position of approximately HK$172 million (as at 31st March, 2004: approximately HK$181 million) which includes short-term bank deposits, bank balances and cash of approximately HK$105 million (as at 31st March, 2004: approximately HK$118 million).

The liquidity of the Group, as evidenced by the current ratio (current assets/current liabilities) was approximately 3.6 times (as at 31st March, 2004: approximately 4.4 times), was maintained at a healthy level.

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

CAPITAL STRUCTURE

As at 30th September, 2004, the net shareholders' equity of the Group is approximately HK$148 million (as at 31st March, 2004: approximately HK$162 million). The Group is free from any bank borrowings except for the convertible notes issued on 22nd February, 1994 (the "Notes").

CONVERTIBLE NOTE

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

i. Note moratorium

The terms of the note arrangement have been amended as follows:

- The maturity date of the Notes was extended for a period of 10 years after their contractual maturity from 23rd February, 2000 to 23rd February, 2010;
- Interest on the Notes would be waived for a period of five years with effect from 23rd February, 1996 to and including 22nd February, 2001; and
- The rate at which interest is charged on the Notes would be reduced from 1 $^3/_4$% per annum to $^7/_8$% per annum for a period of nine years with effect from 23rd February, 2001.

ii. Note exchange

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

Under the original note agreement, there was also an option granted to the holders of the Notes to cause the Company to redeem in US$ at a fixed exchange rate of SFr. 1.00 = US$0.67933 any note on 23rd February, 1998 at a redemption price of 117 3/8% of its principal amount together with interest accrued up to the date of redemption. The date of put option was extended for a period of 10 years after their contractual maturity from 23rd February, 1998 to 23rd February, 2008. The estimated aggregate amount of cash for the redemption of all the Notes is approximately HK$73 million. The Board takes the view that the note holders are very likely to exercise the put option and redeem all the Notes on 23rd February, 2008.

RISK OF FOREIGN EXCHANGE FLUCTUATION

Apart from the Swiss operation, the sales, purchases and operating expenditure of the Group are mainly denominated in Renminbi. The Swiss operation accounts for less than 6.5% of the Group's total activities. The Group's assets employed are mainly denominated in Hong Kong dollars, United States dollars and Renminbi. The Renminbi assets are hedged against the Renminbi liabilities in the ordinary course of operating cycle. Since the Hong Kong dollars is pegged to the United States dollars, the Group considers that its foreign exchange risk is not significant up to the date of this announcement.

The People's Bank of China raised its key lending rate for the first time in nine years in October 2004, increasing it to 5.58 per cent. That added to lending curbs and other administrative controls introduced to cool investment certain industrial sector such as steel and car manufacturing that was expanding too rapidly. China's first interest-rate rise in nine years will be followed not only by further increases but also by a government move to allow a gradual appreciation of Renminbi.

The Board would continue to observe closely 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, 2004, the Company had contingent liabilities as follows:

(1) The Company has given corporate guarantees of HK$11,000,000 (as at 31st March, 2004: HK$11,000,000) to banks to secure general banking facilities granted to the Group. As at 30th September, 2004, bank guarantees given in lieu of utility deposit amounting to approximately HK$404,000 (as at 31st March, 2004: HK$404,000). Except the aforesaid banking guarantees utilized during the period under review, the facilities, which are solely acted as standby nature for any business development of the Group's subsidiaries, have remained intact for the past several years. It was mainly due to the fact that the Group continued to maintain a solid financial structure.

(2) The Company is a nominal defendant of a derivative action brought by Galmare Investment Limited ("Galmare") with 2 Executive Directors on 27th April, 2001, suing on behalf of itself and all other shareholders, other than the Executive Directors. Galmare is seeking a declaration that the acquisition of the information technology business in May 2001 is not in the best interests of the Company or the Shareholders, a declaration that the above Executive Directors are precluded from regarding the conditions precedent to completion from having been complied with, damages against the Executive Directors and other appropriate declarations or further ancillary reliefs. As the Company is only joined as a party to these proceedings as a nominal defendant to a derivative action, the role of the Company is limited i.e. not to take any active role in the proceedings and any damages recovered in such Action are paid to the Company directly. Further to the Court Order made on 4th January, 2002 that the Company is granted a leave to dispense with the filing and service of a defence in relation to the Action, pursuant to the subsequent Court Orders made on 3rd and 4th September, 2003, the ultimate result was that the Company successfully denied the Plaintiff's application regarding claiming the Company to indemnify their legal costs incurred in this Action. Accordingly, the Board does not anticipate any significant adverse financial effect to the Company up to the date of this 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

As at 30th September 2004, certain of the Group's investment properties and leasehold properties with carrying value of approximately HK$7.1 million (as at 31st March, 2004: approximately HK$7.1 million) and HK$7.2 million (as at 31st March, 2004: approximately HK$7.4 million) respectively were pledged to secure the general banking facilities to the extent of HK$11 million.

As at 30th September and 31st March, 2004, the Company has not pledged any assets.

OPERATIONAL REVIEW

Watch Trading and Retailing

The PRC government implemented macro-economic adjustment and control measures in 2004, mainly targeted at industries with excess investment, to reallocate national resources. China, the world's seven-largest economy, is relying on consumer demand to sustain growth as the government clamps down on industrial expansion to help stem gains in costs of raw materials and ease power of shortages.

The increases of the total retail sales of consumer goods and national consumer price index of the Mainland China during the period reflect the fact that the increase in the purchasing power of urban and suburban citizens was in line with the gradual growth of the economy.

As the PRC economy continues to grow and the living standards of residents are raised continuously, its room to grow in the retail market is enormous.

The aggregate turnover for the retail sales of watches excluding the Swiss office during the period under review amounted to approximately HK$118.5 million, representing an increase of 10% compared with approximately HK$107.7 million for the previous period. The overall retail turnover increased during the period under review was mainly due to, among other things, the two folds as follows:

(1) a reflection of the continued growth in average annual household income in urbanized PRC cities where TIMECITY, our proven result retail chain, principally locates its retail outlets, and the increased ability and willingness of these households to demand for luxury and high quality products; and

(2) the SARS impact on the same period last year.

Nevertheless, the attractive growth opportunities in Mainland China has meant that our competitors are expanding more rapidly and new competition is entering the industry. The competition in the PRC retail business is becoming increasingly intense.

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

Firstly, the sale and marketing team offered high professional standards of service, nice and pleasant attitudes and demonstrated their thorough watch technical knowledge to our potential and existing customers and enhances customers' loyalty to our retail chain;

Secondly, TIME CITY has adopted flagship shops concept, which implies that the flagship shops replace smaller format shops. These flagship shops allow customers to browse through a wide variety of products under one roof;

Thirdly, TIME CITY also has implemented the on-going shop portfolio enhancement program ensure that TIME CITY's image is the most prominent figure in the high end watch retail business; and

Fourthly, A bi-monthly magazine namely "Citylife" was issued to promote the brand image of our retail chain i.e. TIME CITY and those commodities that display and sale in our TIME CITY chain.

Furthermore, the increasing income earning population of Mainland China continues to create increase demand of quality products. Our own brand, ACCORD, a fashion and elegance taste medium price range watches are launched in certain strategic sales outlet within TIME CITY. It is one of TIME CITY's business policies to provide wide range of product mix so as to meet the ever-rising demand for high quality products of our customers. The style of the latest ACCORD products launched during the period was overall more fashionable and elegance looking. Comprehensive improvements in style, design, materials, packaging and counter displays have succeeded in further enhancing the image of the products in season, which were widely accepted by the market.

During the period under review, this segment recorded profit amounted to approximately HK$5 million compared with approximately HK$1 million for the previous period.

Properties Investment

Gross rental income generated from properties investment for the six months ended 30th September, 2004 amounted to approximately HK$2.1 million (2003: approximately HK$2.4 million). The minor decrease in the gross rental income is due to the fact that the Group had moved its principal office into one of the properties investment around the end of previous period so as to take the advantage of rental differential over the different districts. It is in accordance with the Board's policy to maximize the return to the Company.

Swiss Operation

During the six months ended 30th September, 2004, our Swiss office recorded a loss amounted to approximately HK$0.1 million. During the period under review, apart from the enhancement of our JUVENIA's luxury brand image, we have substantially set up the infrastructure and the logistic support for the retail distribution network over the Mainland China.

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

For the six months ended 30th September, 2004, the aggregate segment revenue and result from the programming service amounted to approximately HK$1 million and loss of approximately HK$2 million respectively. The loss was mainly attributable to a provision for bad and doubtful debt provided amounting to approximately HK$660,000. During the period under review, the Company had adopted stringent measures to reduce the operating costs so as to enhance the business efficiency.

SHARE OPTION SCHEMES

The Company's 1997 Share Option Scheme was adopted pursuant to a resolution passed on 15th September, 1997 and expired on 15th September, 2000. The Company has, in accordance with Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), adopted a new share option scheme (the "2002 Share Option Scheme"), as approved by the shareholders of the Company at the special general meeting held on 20th September, 2002. The details of the 2002 Share Option Scheme as pursuant to the Listing Rules, are set out in the Company's circular dated 30th July, 2002.

The following is a summary of the principal terms of these two share option schemes (for the 1997 Share Option Scheme, only those terms applying to the outstanding share options are set out below):

1997 Share Option Scheme

The 1997 Share Option Scheme was designed to providing incentives to any executive directors or full time employees of the Company or any of its subsidiaries (the "Eligible Employees").

According to the Scheme, the maximum number of shares issued cannot exceed 10% of the issued share capital of the Company excluding any shares issued pursuant to the Scheme from time to time. The number of shares in respect of which options granted to any Eligible Employee is not permitted to exceed 25% of the aggregate number of shares for the time being issued and issuable under the Scheme.

Option to executive directors may be exercised at any time during a period commencing from the date the option is accepted and ten years from 15th September, 1997. Option to full time employees may be exercised at any time during a period commencing 2 years after the date of the option is accepted and ten years from 15th September, 1997.

The exercise price is determined by the Directors of the Company, and will be the higher of the nominal value of the shares and 80% of the average of the closing prices of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the five trading days immediately preceding the offer of the options.

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

	Number of options held at 01/04/2004	Lapsed and cancelled during the period	Number of options held at 30/09/2004	Exercise price	Grant date	Exercise period
1. Directors						
Leung Chung Ping, Owen	3,000,000	–	3,000,000	HK$1.00	24/09/1997	24/09/1997-14/09/2007
Sum Pui Ying, Adrian	3,000,000	–	3,000,000	HK$1.00	24/09/1997	24/09/1997-14/09/2007
2. Continuous Contract Employees	1,400,000	200,000	1,200,000	HK$1.00	24/09/1997	24/09/1999-14/09/2007
	7,400,000	200,000	7,200,000			

No option was granted or exercised during the six months ended 30th September, 2004.

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, 2004, the Group has around 540 employees about 93% of which are working in the PRC, mainly for the watch retailing business. Apart from the frontline colleagues, staff of different discipline of professionals such as product design, sales and marketing and brand development have been recruited during the period under review so as to cope with the business development. The Group has, in accordance with applicable laws, established pension funds in the PRC. Total staff costs, including commission but excluding Directors' emoluments for the six months ended 30th September, 2004 was amounted to approximately HK$15 million (2003: approximately 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 Board regards the human resources as invaluable asset for the Group's current achievement and future development. It is the Group's human resources policy to provide equal opportunity and high motivation to all its employees.

PROSPECTS

Watch Trading and Retailing

According to the latest figures released, the economic growth of the Mainland China maintained above 9 per cent for the 9-month period in the year 2004. Economic growth dropped slightly to 9.1 per cent in the third quarter, down from 9.6 per cent in the first six months, mainly due to administrative measures introduced during the past 12 months to curb overheating. The continued economic growth is the underlying reason that the overall market trend on the Mainland China is moving towards a "broad-based economic development combined with rising consumption". The rising consumerism, expansion of the middle class and the strive for elegant and lifestyle has created a booming market in the Mainland China.

As released by National Bureau of Statistics, retail sales increased to 14.2 per cent from a year earlier to 498 billion yuan after gaining 14 per cent in September. Mainland retail sales surge to record high. The latest retail sales figures add to evidence that China could avoid a slump as investment cools.

Nevertheless, the Group, like other Mainland retailers, faces the challenges and difficulties as follows:

The macro-economic adjustment and control measures were still at a crucial stage, whether there is another move of the central government's austerity measures or not cast uncertainties to the business environment of the Mainland China's market;

Following the gradual implementation of the "Closer Economic Partnership Agreement", the new competitors can further penetrate into the PRC market;

Under the fuelled competition environment, the scramble for experienced sales and marketing staff and shops at prime locations by the new entrants has meant that salaries, staff benefits and retail rental prices will rises significantly. The escalated operating costs with added fuel from the great inflationary pressure in China, will then put great pressure on the operating productivity and lead to squeezed margin;

Based on the recent information released, the number of mainland visitors to Hong Kong and Macau for the 9-month period of year 2004 was approximately 9 million and 7 million respectively because of the "Individual Visit Scheme" implemented by the PRC central government. The strong increase in the number of mainland visitors fuelled by the acceptance of RMB Union Pay Card in Hong Kong that allow the mainland visitors to indulge in shopping without worries. As a result, TIMECITY, like other mainland retailers faces the direct intense competition with Hong Kong counter players. According to the Travel Business Analyst of the tourist offices of Hong Kong and Macau, the estimated visitors from the mainland in year 2005 may around 21.5 million and 19.2 million respectively.

To embrace the business opportunities and to stand against the current and new competition, the Group will base on customer-focused strategy strives to do better and better as below:

(1) The Group will continue to implement the flagship shops concepts and on-going shop portfolio enhancement program in the Mainland China during the coming years. Flagship shops will become the ideal platform for the Group to strengthen its regional presence. At the same time, flagship shops will also help the Group to increase profitability, as well as consolidating and strengthening the competitive position of the Group in the market;

(2) The Group will upgrade and replace its information infrastructure so as to cope with the dynamic business environment;

(3) The Group puts emphasis on our business partners. TIME CITY formulates promotion strategies and collaborates with the its suppliers and customers on the formulation and/or implementation of promotion plans and the release of new products; and

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

The Company will allocate more resources in brand promotion, which will form the synergy with our retail business. One of the long-term business developments was the moderate expansion and development of our own brands, ACCORD and JUVENIA.

Programming Service Provider

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

Other Matter

Based on the Company's solid financial position and the cash generating capacity from its retail business, the Board will keep on looking for good investment opportunities to strengthen the Group's profitability and maximize its shareholders' value. It is the Company's policy to adopt a cautious but proactive approach in its business expansion and diversification with main focus on the Mainland China.

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.

CODE OF BEST PRACTICE

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.

PUBLICATION OF RESULTS ON THE STOCK EXCHANGE'S WEBSITE

All the information required by paragraph 46(1) to 46(6) inclusive of Appendix 16 to the Listing Rules will be published on The Stock Exchange of Hong Kong Limited's website in due course.

By order of the Board
Sum Pui Ying, Adrian
Managing Director

Hong Kong, 17th December, 2004

As at the date of this announcement, the Board comprises Mr. Leung Chung Ping, Owen, Mr. Sum Pui Ying, Adrian as executive directors, Miss Leung Miu King, Marina as non-executive director and Mr. Sit Kien Ping, Peter, Mr. Lai Si Ming and Mr. Frank Miu as independent non-executive directors.

Please also refer to the published version of this announcement in The Standard dated 20 December 2004.