

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, 2002 with the comparative figures are set out as follows:

Condensed Consolidated Income Statement

	Notes	Six months ended 30th September,	
		2002 HK\$'000 (unaudited)	2001 HK\$'000 (unaudited)
TURNOVER	2	119,844	86,619
COST OF SALES		(83,075)	(54,444)
GROSS PROFIT		36,769	32,175
OTHER REVENUE	2	14,095	10,432
DISTRIBUTION COSTS		(31,556)	(22,312)
ADMINISTRATIVE EXPENSES		(5,684)	(10,265)
OTHER OPERATING EXPENSES	3	(18,656)	(6,888)
(LOSS)/PROFIT FROM OPERATIONS		(5,032)	3,142
FINANCE COSTS	4	(1,105)	(993)
OTHER EXPENSES	5	(910)	(1,042)
SHARE OF RESULTS OF AN ASSOCIATE		(401)	(540)
(LOSS)/PROFIT BEFORE TAXATION	6	(7,448)	567
TAXATION	7	(36)	(71)
(LOSS)/PROFIT AFTER TAXATION		(7,484)	496
MINORITY INTERESTS		1,718	1,525
NET (LOSS)/PROFIT FOR THE PERIOD		(5,766)	2,021
ACCUMULATED LOSSES BROUGHT FORWARD		(336,868)	(337,038)
EXCESS DEPRECIATION ON REVALUED PROPERTIES		6	11
ACCUMULATED LOSSES CARRIED FORWARD		(342,628)	(335,006)
(LOSS)/EARNINGS PER SHARE	8	(1.73 cents)	0.62 cent

Condensed Consolidated Balance Sheet

		30th September, 2002	31st March, 2002
	Notes	HK\$'000 (unaudited)	HK\$'000 (audited)
ASSETS			
Non-current assets			
Intangible assets	9	33,908	34,888
Interest in an associate		2,344	2,745
Fixed assets	10	50,143	50,898
Investments in securities – investment securities		3,269	3,269
		89,664	91,800
Current assets			
Properties held for resale		13,539	12,832
Inventories – goods for resale		76,265	78,853
Investments in securities – other investments		15,944	27,999
Trade and other receivables, deposits, and prepayments	11	29,085	24,553
Short-term bank deposits		48,555	45,194
Bank balances and cash		9,455	15,071
		192,843	204,502
LIABILITIES			
Current liabilities			
Trade and other payables and accrued charges	12	56,745	64,321
Taxation payable		–	6
		56,745	64,327
Net current assets		136,098	140,175
Total assets less current liabilities		225,762	231,975
Non-current liabilities			
Rental received in advance		1,983	2,009
Convertible notes		68,940	68,265
		70,923	70,274
MINORITY INTERESTS		831	2,549
NET ASSETS		154,008	159,152
CAPITAL AND RESERVES			
Share capital	13	333,719	333,719
Reserves		(179,711)	(174,567)
SHAREHOLDERS' FUNDS		154,008	159,152

Condensed Consolidated Cash Flow Statement

	Six months ended	
	30th September,	
	2002	2001
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
NET CASH USED IN OPERATING ACTIVITIES	(810)	(3,486)
NET CASH (USED IN)/FROM INVESTING ACTIVITIES	(1,468)	3,853
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(2,278)	367
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	60,265	69,161
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	23	9
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>58,010</u>	<u>69,537</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Short-term bank deposits	48,555	50,492
Bank balances and cash	9,455	19,045
	<u>58,010</u>	<u>69,537</u>

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)	Accumu- lated losses HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
Balance at 1st April, 2001	291,719	84	4,158	554	930	156,959	(337,038)	117,366
Net off with provision for impairment of leasehold properties	-	-	-	(46)	-	-	-	(46)
Exchange differences arising from translation of financial statements of operation outside Hong Kong	-	-	-	-	394	-	-	394
Exclusion of a subsidiary from consolidation upon liquidation	-	-	-	-	-	11	-	11
Net gains/(losses) not recognized in the income statement	-	-	-	(46)	394	11	-	359
Issued in consideration for the acquisition of a subsidiary	42,000	-	-	-	-	-	-	42,000
Excess depreciation on revalued properties	-	-	-	(11)	-	-	11	-
Net profit for the period	-	-	-	-	-	-	2,021	2,021
Balance at 30th September, 2001	333,719	84	4,158	497	1,324	156,970	(335,006)	161,746
Deficit arising from valuation of investment properties	-	-	(514)	-	-	-	-	(514)
Exchange differences arising from translation of financial statements of operation outside Hong Kong	-	-	-	-	(211)	-	-	(211)
Net losses not recognized in the income statement	-	-	(514)	-	(211)	-	-	(725)
Reclassification	-	-	(188)	188	-	-	-	-
Excess depreciation on revalued properties	-	-	-	(7)	-	-	7	-
Net loss for the period	-	-	-	-	-	-	(1,869)	(1,869)
Balance at 31st March, 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	<u>333,719</u>	<u>84</u>	<u>3,582</u>	<u>546</u>	<u>1,735</u>	<u>156,970</u>	<u>(342,628)</u>	<u>154,008</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, 2002 together with comparative figures for the previous period are as follows:

	Six months ended 30th September, 2002						Consolidated HK\$'000 (unaudited)
	Sale of complete 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	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>(2,044)</u>	<u>950</u>	<u>(1,555)</u>	<u>(2,777)</u>	<u>394</u>	<u>-</u>	<u>(5,032)</u>
Finance costs							(1,105)
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>

a) Business Segment (continued)

	Six months ended 30th September, 2001						Consolidated HK\$'000 (unaudited)
	Sale of complete 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	84,348	2,265	–	6	–	–	86,619
– Inter-segment sales	–	67	–	–	–	(67)	–
	<u>84,348</u>	<u>2,332</u>	<u>–</u>	<u>6</u>	<u>–</u>	<u>(67)</u>	<u>86,619</u>
Segment Results	<u>3,285</u>	<u>2,012</u>	<u>(1,357)</u>	<u>(2,513)</u>	<u>1,715</u>	<u>–</u>	<u>3,142</u>
Finance costs							(993)
Other expenses	(61)	(287)	–	(11)	(683)	–	(1,042)
Share of results of an associate	–	–	–	(540)	–	–	(540)
Profit before taxation							567
Taxation							<u>(71)</u>
Profit after taxation							496
Minority interests							<u>1,525</u>
Net profit for the period							<u><u>2,021</u></u>

b) *Geographical segment*

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

	Six months ended 30th September, 2002		2001	
	Sale revenue <i>HK\$'000</i> (unaudited)	Contribution to Operating loss <i>HK\$'000</i> (unaudited)	Sales revenue <i>HK\$'000</i> (unaudited)	Contribution to operating profit <i>HK\$'000</i> (unaudited)
The People's Republic of China ("PRC"), excluding Hong Kong	114,197	(1,048)	83,856	4,643
Hong Kong	2,187	(708)	1,414	(869)
Others	3,460	(3,276)	1,349	(632)
	<u>119,844</u>		<u>86,619</u>	
(Loss)/Profit from operations		<u>(5,032)</u>		<u>3,142</u>

Notes:

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA").

The condensed financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and investments in securities. The accounting policies adopted are consistent with those followed in the Group's annual financial statements for the year ended 31st March, 2002 except that the Group has adopted the following new/revised SSAPs issued by HKSA which are effective for accounting periods commencing on or after 1st January, 2002:

SSAP 1 (Revised)	:	Presentation of financial statements
SSAP 11 (Revised)	:	Foreign currency translation
SSAP 15 (Revised)	:	Cash flow statements
SSAP 25 (Revised)	:	Interim financial statements
SSAP 34	:	Employee benefits

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

A summary of their major effects is as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to this SSAP is to change the requirements from presenting a statement of recognized gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the current interim period and the comparative figures have been presented in accordance with this revised SSAP.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The Group has adopted the transitional provision of this SSAP that where the calculation of prior year adjustment is impractical, the changes in policy are applied only to current and future financial statements and the effect on the results of the current period is approximately HK\$17,000.

SSAP 15 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the period into operating, investing and financing activities. The condensed consolidated cash flow statement for the current interim period and the comparative figures have been presented in accordance with this revised SSAP.

SSAP 25 (Revised) prescribes the presentation and disclosures following changes in SSAP 1 (Revised) and SSAP 15 (Revised). The condensed financial statements for the current interim period and comparative figures have been presented in accordance with this revised SSAP.

SSAP 34 prescribes the accounting treatment and disclosure requirements for employee benefits. This revised SSAP has had no significant impact on the results for the current and prior accounting periods. Accordingly, no prior period adjustment has been required.

2. TURNOVER AND OTHER REVENUE

	Six months ended 30th September,	
	2002	2001
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Turnover		
Sales of complete watches	103,841	84,348
Rental income		
Investment properties	2,206	1,976
Land and buildings	155	147
Others	151	142
	2,512	2,265
Investment securities	10,570	–
Programming service	2,921	6
	119,844	86,619
Other revenue		
Written back of provision for bad and doubtful debts (<i>note 16</i>)	7,586	455
Reversal of trade and other payables	2,456	6,007
Dividend income	30	–
Interest income	620	1,518
Surplus arising from increase in value of properties held for resale	–	685
Others	3,403	1,767
	14,095	10,432
	133,939	97,051

3. OTHER OPERATING EXPENSES

	Six months ended 30th September,	
	2002	2001
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Provision for bad and doubtful debts	1,971	257
Written off of principal and interest receivable due from a minority shareholder of a former subsidiary (<i>note 16</i>)	7,586	–
Provision for diminution in value of properties held for resale	454	–
Provision for slow-moving inventories	6,924	4,842
Net unrealized loss on revaluation of investments in securities	1,721	1,789
	18,656	6,888

4. FINANCE COSTS

	Six months ended 30th September,	
	2002	2001
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest payable on:		
Convertible notes	189	189
Others	–	32
	189	221
Convertible notes:		
Amortization of premium on redemption	486	486
Others	430	286
Total borrowing costs	1,105	993

5. OTHER EXPENSES

	Six months ended 30th September,	
	2002	2001
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Provision for impairment loss on leasehold properties	–	1,441
Written off of fixed assets	–	61
Amortization of goodwill	910	683
Written off of investment and amounts due from subsidiaries upon liquidation	–	(1,143)
	<u>910</u>	<u>1,042</u>

6. (LOSS)/PROFIT BEFORE TAXATION

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

	Six months ended 30th September,	
	2002	2001
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Crediting:		
Gross gain on sale of investments in securities – other investments	<u>236</u>	<u>–</u>
Charging:		
Depreciation/amortization		
On leasehold properties and other fixed assets	2,228	2,135
On computer software	70	70
	<u>2,298</u>	<u>2,205</u>

7. TAXATION

	Six months ended 30th September,	
	2002	2001
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
The charge comprises:		
Taxation in other jurisdictions of the Company and its subsidiaries	<u>36</u>	<u>71</u>

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 16% (2001: 16%) of the estimated assessable profit for the period.

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

8. (LOSS)/EARNINGS PER SHARE

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

	Six months ended 30th September, 2002 (unaudited)	2001 (unaudited)
(Loss)/Earnings		
(Loss)/earnings for the purpose of basic (loss)/earnings per share	<u>HK\$(5,766,000)</u>	HK\$2,021,000
Number of shares		
Weighted average number of shares for the purpose of basic (loss)/earnings per share	<u>333,719,516</u>	<u>323,391,647</u>
Basic (loss)/earnings per share	<u>(1.73 cents)</u>	<u>0.62 cent</u>

No disclosure of the diluted (loss)/earnings 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

	Goodwill HK\$'000 (unaudited)	Computer software HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
Six months ended 30th September, 2002			
Net book values at 1st April, 2002	34,818	70	34,888
Amortization charge	(910)	(70)	(980)
Net book values at 30th September, 2002	<u>33,908</u>	<u>—</u>	<u>33,908</u>
At 30th September, 2002			
Cost	36,415	281	36,696
Accumulated amortization	(2,507)	(281)	(2,788)
Net book values	<u>33,908</u>	<u>—</u>	<u>33,908</u>
At 31st March, 2002			
Cost	36,415	281	36,696
Accumulated amortization	(1,597)	(211)	(1,808)
Net book values	<u>34,818</u>	<u>70</u>	<u>34,888</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, 2002	36,608	8,953	5,337	50,898
Currency realignment	-	-	5	5
Reclassification	2,286	(2,286)	-	-
Additions	-	-	1,468	1,468
Depreciation	-	(99)	(2,129)	(2,228)
Net book values at 30th September, 2002	38,894	6,568	4,681	50,143

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\$18,680,000 (as at 31st March, 2002: HK\$13,783,000) which are included in the Group's trade and other receivables, deposits and prepayments at the reporting date is as follows:

	30th September, 2002 HK\$'000 (unaudited)	31st March, 2002 HK\$'000 (audited)
Trade receivables		
Current to 90 days	18,225	13,728
91 days to 180 days	74	21
Over 180 days	381	34
Other receivables, deposits and prepayments	18,680	13,783
	10,405	10,770
	29,085	24,553

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\$14,222,000 (as at 31st March, 2002: HK\$17,620,000), the aged analysis of which at the reporting date is as follows:

	30th September, 2002 HK\$'000 (unaudited)	31st March, 2002 HK\$'000 (audited)
Trade payables		
Current to 90 days	13,482	17,106
91 days to 180 days	86	10
Over 180 days	654	504
	14,222	17,620
Other payables and accrued charges	42,523	46,701
	56,745	64,321

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

13. SHARE CAPITAL

	30th September, 2002	
	Number of shares '000 (unaudited)	Value HK\$'000 (unaudited)
Ordinary shares of HK\$1 each		
Authorized:		
Balance at beginning and end of the period	400,000	400,000
Issued:		
Balance at beginning and end of the period	333,719	333,719

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

As at 30th September, 2002, the Group had total future minimum lease receivables under the non-cancellable operating leases with the tenants falling due as follows:

	30th September, 2002 HK\$'000 (unaudited)	31st March, 2002 HK\$'000 (audited)
Within one year	3,815	3,892
In the second to fifth years inclusive	7,367	8,257
After the fifth year	2,433	3,128
	<u>13,615</u>	<u>15,277</u>

As lessee

As at 30th September, 2002, the Group had total future minimum lease payments under the non-cancellable operating leases falling due as follows:

	30th September, 2002 HK\$'000 (unaudited)	31st March, 2002 HK\$'000 (audited)
Within one year	10,664	12,900
In the second to fifth years inclusive	12,342	14,676
After the fifth year	-	41
	<u>23,006</u>	<u>27,617</u>

15. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

(a) As at 30th September, 2002, the Company had contingent liabilities as follows:

- (1) The Company issued corporate guarantee of HK\$11,000,000 (as at 31st March, 2002: HK\$11,000,000) to banks to secure general banking facilities granted to the Group. Bank facilities utilized at both reporting dates was HK\$ nil.

15. CONTINGENT LIABILITIES AND CONTINGENT ASSETS (Continued)

(2) The Company is the co-defendant with 2 Executive Directors in a representative action (the "Action") commenced by Galmare Investment Limited on 27th April, 2001, suing on behalf of itself and all other shareholders, other than the Executive Directors. As the Company is only named as "nominal defendant", no significant adverse financial effect to the Company is anticipated up to the date of this report. The Board shall inform the shareholders by press announcement, should there be any significant process or major development in the litigation, which affects the interests of the shareholders in due course.

Save as disclosed herein, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

(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.

16. RELATED PARTY TRANSACTIONS

The following is a summary of the significant transactions with related parties during the period under review.

Summary of income and expenses items

	Income/(Expenses)	
	Six months ended	
	30th September,	
	2002	2001
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest income from a minority shareholder who is also a director, of a former subsidiary	129	250
Provision for interest receivable from the above mentioned minority shareholder of a former subsidiary (<i>Note</i>)	(129)	(250)
Written off of principal and interest receivable due from the above mentioned minority shareholder of a former subsidiary (<i>Note</i>)	(7,586)	-
Written back of provision for principal and interest receivable due from the above mentioned minority shareholder of a former subsidiary (<i>Note</i>)	7,586	-

16. RELATED PARTY TRANSACTIONS (Continued)

Note: On 17th July, 2000, a writ has been lodged to High Court to claim the aggregated overdue balance and interest thereon amounting to approximately HK\$7.6 million. Before the civil procedure of High Court of the above legal action has completed and the Court's judgement is to be obtained, the defendant passed away. After considering legal opinions regarding the anticipated legal cost and the financial risk to be involved, the Board decides to end the proceedings against the deceased defendant.

17. COMPARATIVE FIGURES

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

INTERIM DIVIDEND

The Board does not recommend payment of an interim dividend for the six months ended 30th September, 2002 (2001: HK\$ nil).

FINANCIAL REVIEW

The unaudited consolidated turnover of the Group amounted to approximately HK\$120 million (2001: HK\$87 million) for the period under review, representing an increase of approximately 38% when compared with the previous period. The loss attributable to shareholders amounting to approximately HK\$6 million for the period under review, compared to a net profit of HK\$2 million for the previous period. Loss per share was HK\$1.73 cents for the period under review, compared to earnings per share of HK0.62 cent for the previous period.

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 continues to maintain a solid financial structure and generally finances its operation from internal financial resources.

As at 30th September, 2002, the Group enjoyed a net current asset position of approximately HK\$136 million (as at 31st March, 2002: HK\$140 million) which includes short-term bank deposits, bank balances and cash of approximately HK\$58 million.

The liquidity of the Group as evidenced by the current ratio (current assets/current liabilities) of 3.4 times, was maintained at a healthy level.

Due to healthy recurring stream of cash inflow generated from watch retailing business, the Group has 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 period under review was HK\$0.2 million. 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 period under review was HK\$0.5 million.

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 Group's assets employed are mainly denominated in Hong Kong dollars, United States dollars and Renminbi. The Renminbi assets are hedged against the Renminbi liabilities in the ordinary course of operating cycle. Since the Hong Kong dollars is pegged to the United States dollars, the Group considers that its foreign exchange risk is minimal. Nevertheless, the Board would closely observe the Mainland China's economic reform and development as well as Hong Kong's fiscal policies and implement effective programs to minimize any foreign exchange exposure.

PLEDGE OF ASSETS

As at 30th September, 2002, the general banking facilities granted to the Group of HK\$11 million (as at 31st March, 2002: HK\$11 million) were secured by certain properties of carrying values of HK\$16.5 million (as at 31st March, 2002: HK\$16.5 million). The banking facilities granted have not been utilized at both reporting dates.

SHARE OPTION SCHEME

On 20th September, 2002, the shareholders of the Company approved the adoption of a new share option scheme (the "2002 Share Option Scheme"). The 2002 Share Option Scheme is designed to motivate executives and employees in the service of any member of the Group and other persons who may make a contribution to the Group to optimize their future contributions to the Group and enable the Group to attract and retain individuals with experience and ability and to reward them for their past contributions to the success of the Group. The details of the scheme, as pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), are set out in the Company's circular dated 30th July, 2002.

SHARE OPTION SCHEME (Continued)

As at 30th September, 2002, options to subscribe for a total of 7,400,000 shares were still outstanding under a share option scheme adopted by the Company on 15th September, 1997 (the "1997 Share Option Scheme") which expired on 15th September, 2000.

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

	Number of options held at 01/04/2002	Exercise price	Date granted	Exercise period
Directors (Note)	6,000,000	HK\$1.00	24/09/1997	24/09/1997-14/09/2007
Continuous Contract Employees	1,400,000	HK\$1.00	24/09/1997	24/09/1999-14/09/2007

Note: For the breakdown of the "Directors" category, please refer to the section headed "Directors' Rights to Acquire Shares or Debentures" in this report.

No option was granted, exercised, cancelled or lapsed during the period under review and the previous period.

EMPLOYEE

As at the report date, the Group has around 486 employees, about 94% of which are working in the PRC, mainly for the watch retailing business. The increase in staff employed was mainly to cope with the business expansion during the period under review. The Group has, in accordance with applicable laws, established pension funds in the PRC. Total staff costs including commission but excluding the Directors' emoluments, amounted to HK\$13 million (2001: HK\$11 million). Apart from the increase in staffing for the business expansion, the increase is mainly because of the increased sales transacted during the period under review, which in turn led to increases in commission payable.

The Group reviews remuneration packages from time to time and normally on yearly basis. Besides salary payments and other staff benefits which include contributions to Mandatory Provident Fund, medical insurance, a discretionary bonus scheme and share option scheme, the Group also facilitates continuing education of staff in recognized associations.

As part of the cost control measures to enhance the Group's overall productivity, more stringent salary adjustments have been implemented to Hong Kong staff since 1st April, 2002 such as the 10% salary reduction and the entitlement of the 13th month salary is based on the performance achieved and on discretionary basis.

It is the Group's human resources policy to provide equal opportunity and high motivation to all its employees.

OPERATIONAL REVIEW

Watch Trading and Retailing

The aggregate turnover from the sales of complete watches excluding the Swiss office during the period under review amounted to HK\$103 million, representing an increase of 24% compared with HK\$83 million for the previous corresponding period. The reasons for the increase are mainly due to five folds:

The utmost important reason is the excellent reputation of our retail chain network in name of TIME CITY, which has been built up by the Company through long period of presence in the market. It has a great competitive advantage over the other players as TIME CITY engages in the high-end luxury retail business, while counter-feits are common in the market.

The excellent status of our retail chain in the market is evidenced by the various awards granted by the local regulatory bodies, which have been stated previously in the annual report 2002.

Secondly, the effect of the joint co-operation with the brands to redecorate the shop image to provide a comfortable environment for shopping and a warm feeling of elegance and harmony to customers.

Thirdly, various joint marketing campaigns with the brands have been carried out in TIME CITY, for instance the exhibitions for the pre-launch of new collections and special limited editions.

Fourthly, the decentralization of the various sales and marketing programs that launched to each local market and customers sector. The management information provided by our point of sales system offers a strong support, other than internal control function, to these marketing plans and sales campaigns which in turn can react to the market and customers' preference promptly.

Fifthly, the business policy to develop and expand the after-sales services business sector which itself not only attains steady stream of revenue but at the same time enhances customers' loyalty as well as their satisfaction and strengthen our business relationships with various brands.

Nevertheless the first half period of this financial year was itself a challenging period to TIME CITY. As previously anticipated in the last year's interim report and annual report, TIME CITY faced very keen competition from the local and foreign players during the period under review. There are continued great pressures on the general reduction on the gross profit margin and the general increases in the operating costs and overheads esp. those incurred in the Mainland China because of the reasons below:

Firstly, along with the PRC's entry to World Trade Organization, the anticipated huge market in the Mainland China attracts many foreign investors to participate. Among them, there are also many retailing business players. They have large capital resources and sound track records. These foreign new comers are strong competitors because they are equipped with high standard of management and expertise in the retailing business. The emerge of the foreign strong competitors is the one of main reasons to explain why the operating costs esp. the commission maintained at a high level for sake of sustaining the key employees and the valuable manpower.

OPERATIONAL REVIEW (Continued)

Watch Trading and Retailing (Continued)

Secondly, in anticipation of the keen challenges from foreign players, many domestic retailers increase their sizes and market shares by means of merger, acquisition and alliance. They copy and update the standard of quality and management. They also adopt an aggressive pricing strategy. As a result, the overall market profit margin drops accordingly.

Thirdly, in order to enhance their prominent presence in the PRC market, more and more brands open their own outlets such as boutiques and then gradually away from the retail chains including TIME CITY. As a result, the range of brands available to our retail chain decreases accordingly. On one hand, TIME CITY invites various prestigious brands to carry out advertising and promotion campaigns jointly so as to attract them to stay with our chain as long term business partnership. On the other hand, TIME CITY will source new products from Europe to replenish our product mix. As a result, more resources are needed to devote to promote and advertise the new product mix so as to achieve the market's acceptance. Given the keen competition in the retailing market, TIME CITY needs to take longer-than-expected time for the aforesaid promotion campaign before positioning the new product mix in the targeted customers sector. All these directly put pressures on the gross profit margin and increases the operating costs.

Fourthly, the performance on the market from the western region of China is worse-than-expected as the pace of the local economic growth is stable but slow. The Board anticipates that it still takes longer time before such market brings significant return to TIME CITY. As a result, the overall profit margin and the net profit margin are adversely affected during the period under review.

After the past several years' business organic growth, the Group plans to consolidate operations and enhance its productivity and competitive advantage by cutting some small, under-performing outlets so as to counteract the effects of such a challenging business environment.

Properties Investment

Gross rental income generated from investment properties and land and buildings amounted to approximately HK\$2.5 million for the period under review (2001: HK\$2.3 million) represented a minor increase of 8.7%. The increase is in line with the Board's policy to lease out any unoccupied area so as to maximize the return to the Company. In order to minimize the exposure of property downturn and solidify long-term business relationships with tenants, it is the Board's policy to lease out the investment properties in medium term.

Securities Investment

During the period under review, the Group had redeemed those debt securities upon maturity and a gain of HK\$0.2 million was realized. As at 30th September, 2002, a net unrealized loss on revaluation of approximately HK\$1.7 million in relation to the remaining portfolio of the Group's securities investment has been charged to the income statement in accordance with the benchmark accounting treatment that recommended by HKSA. As a result, the market value of the Group's securities portfolio other than those, which are intended to be held on a continuing basis, was changed from HK\$28 million as at 31st March, 2002 to approximately HK\$16 million as at 30th September, 2002.

OPERATIONAL REVIEW (Continued)

Swiss Operation

The turnover during the period under review amounted to approximately HK\$5.9 million, representing an increase of 126.9% compared with HK\$2.6 million for the previous period. During the period under review, it recorded a minor profit amounted to approximately HK\$0.9 million (2001: Loss of HK\$0.2 million). The Group continues to monitor the reduced scale of our Swiss operation prior to the implementation of second phase of the business campaign of accelerating the Company's own brand- JUVENIA since 1860, our Swiss prestigious brand. It is the Board's policy to continue its financial support to the Swiss watch brand. JUVENIA S.A. is free of any bank borrowings and the Board is of view that JUVENIA S.A. will not be a significant financial burden to the Group.

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 the annual report 2002. During the period under review, the hi-tech industry was still being hit hard by the weak global economy with the result being substantial shrinkage of the global markets for systems integration and outsourcing programming services. The turnover and loss from provision of programming service during the period under review was amounted to approximately HK\$2.9 million and HK\$2.8 million respectively.

PROSPECTS

Retailing Business in the PRC

Retailing business, where our expert and strength lie, is evidenced by the proven result distribution chain, is the core business of the Company. Despite the unfavorable factors stated under the section "Operational Review" above have put great pressures and difficulties to the Company, the Board is of the view that the Group is having competitive advantages in the retailing business in the PRC. It is expected that the Mainland China will continue to sustain its economic growth and the gradual reductions of tariffs for the imported luxury commodities, which in turn provides good opportunities for the Swiss brands including our own brand, JUVENIA. In view of the long history of the Swiss brand JUVENIA, the Board anticipates its great potential in the high-end niche of the watch market in the Mainland China where our proven result distribution chain operates.

Moreover, the Company continues to source and introduce more new commodities such as lighters, gifts and jewelry to TIME CITY so as to provide more choices to our customers.

Programming Service Provider

In view of the worldwide difficulties encountered in the information technology ("I.T.") industry, the Board will continue to take a very realistic and prudence approach on our programming service business in the coming years. Yet the Board is fully aware that the characteristics of I.T. business is high risk but high growth and has long term prospects. The Board will closely monitor its performance and then make appropriate adjustment to its business strategy as required.

DIRECTORS' INTERESTS IN SHARES

As at 30th September, 2002, the interests of the directors and their associates in the share capital of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance were as follows:

Name of director	Number of shares held			
	Personal interests	Family interests	Corporate interests	Other interests
Leung Chung Ping, Owen	20,000,000	–	–	–
Sum Pui Ying, Adrian	–	–	–	–
Wong Wang Chan	–	–	–	–
Leung Miu King, Marina	–	–	–	–
Sit Kien Ping, Peter	–	–	–	–
Lai Si Ming, Simon	–	–	–	–

Saved as disclosed above and other than certain nominee shares in subsidiaries held by directors in trust for the Group, none of the directors or their associates had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

As at 30th September, 2002, the directors had the following personal interests in share options to subscribe for shares in the Company granted under the 1997 Share Option Scheme, details of which are set out in heading "SHARE OPTION SCHEME" above:

Name of director	Date granted	Exercise price	Number of Share options
Leung Chung Ping, Owen	24th September, 1997	HK\$1.00	3,000,000
Sum Pui Ying, Adrian	24th September, 1997	HK\$1.00	3,000,000

No share option was granted, exercised, lapsed or cancelled during the period under review. The options granted are exercisable for a period of ten years commencing from the date the option scheme is adopted.

Other than as disclosed above, at no time during the period the Company or any of its subsidiaries was a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. None of the directors, their spouses or their children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

SUBSTANTIAL SHAREHOLDERS

As at 30th September, 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shown that the Company has been notified of the following persons with interests representing 10% or more of the Company's issued share capital:

Name	Number of Shares
Leung Shu Wing	55,000,000 (<i>Note 1</i>)
Kee Shing (Holdings) Limited ("Kee Shing")	55,000,000 (<i>Note 1</i>)
Pacific Apex International Limited ("Pacific Apex")	55,000,000
Chan Chung Wai	42,000,000 (<i>Note 2</i>)
Webwork Holdings Limited ("Webwork")	42,000,000
Leong Lou Teck	37,550,540 (<i>Note 3</i>)
Yap Han Hoe	37,508,000 (<i>Note 3</i>)
Galmare Investment Limited ("Galmare")	37,500,000
Eav Yin	51,239,980 (<i>Note 4</i>)
Eav An Unit Trust	32,876,000

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 refer to the same holding of 42,000,000 shares held by Webwork. Mr. Chan Chung Wai is the beneficial owner of Webwork. At the date of this report, these shares are included under HKSCC Nominees Limited.
3. These shares include 37,500,000 shares held through Galmare. Galmare is equally owned by Mr. Leong Lou Teck and Mr. Yap Han Hoe.
4. 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.

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 SAR, 13th December, 2002