



Oriental Watch Holdings Limited
(Incorporated in Bermuda with limited liability)



2002

Interim Report

INTERIM RESULTS

The Board of Directors of Oriental Watch Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2002 together with the comparative figures for the corresponding period in 2001 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2002

		(Unaudited)	
		Six months ended	
		30 September	
		2002	2001
	Notes	HK\$'000	HK\$'000
Turnover		876,404	846,757
Cost of goods sold		(797,852)	(764,442)
Gross profit		78,552	82,315
Other operating income		6,378	8,694
Distribution costs		(14,559)	(14,806)
Administrative expenses		(26,868)	(28,692)
Profit from operations		43,503	47,511
Finance costs		(783)	(499)
Profit before taxation	4	42,720	47,012
Taxation	5	(7,257)	(8,178)
Profit before minority interests		35,463	38,834
Minority interests		—	1,226
Profit attributable to shareholders		35,463	40,060
Dividend	6	5,505	6,881
Earnings per share	7		
— Basic		12.88 cents	14.55 cents
— Diluted		N/A	14.28 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2002

		(Unaudited) 30 September 2002 HK\$'000	(Audited) 31 March 2002 HK\$'000
Non-current assets			
Investment properties		13,500	13,500
Property, plant and equipment		78,031	79,142
Negative goodwill		(3,727)	(3,828)
Investment securities		13,823	13,848
		101,627	102,662
Current assets			
Inventories		445,681	405,812
Trade and other receivables	8	59,749	16,778
Investment securities		744	1,217
Taxation recoverable		251	3,526
Pledged bank deposits		13,790	22,300
Bank balances and cash		76,767	71,013
		596,982	520,646
Current liabilities			
Trade and other payables	9	85,747	40,259
Obligations under a finance lease due within one year		110	141
Taxation payable		5,168	2,409
Short-term bank loans — secured		27,924	19,717
Bank overdrafts — unsecured		—	4,140
		118,949	66,666
Net current assets		478,033	453,980
Total assets less current liabilities		579,660	556,642
Non-current liabilities			
Obligations under a finance lease due after one year		85	124
Deferred taxation		333	353
		418	477
Net assets		579,242	556,165
Capital and reserves			
Share capital		27,525	27,525
Reserves		551,717	528,640
Shareholders' funds		579,242	556,165

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2002

	Share capital HK\$'000	Share redemption premium HK\$'000	Investment		Other	Special reserve HK\$'000	Dividend reserve HK\$'000	Retained (Unaudited)	
			Capital revaluation reserve HK\$'000	property revaluation reserve HK\$'000	property revaluation reserve HK\$'000			profits	Total
At 1 April 2001	27,525	52,045	425	2,870	807	5,180	16,515	397,822	503,189
Profit attributable to shareholders	—	—	—	—	—	—	—	40,060	40,060
2001 final dividend paid	—	—	—	—	—	—	(16,515)	—	(16,515)
2002 interim dividend declared	—	—	—	—	—	—	6,881	(6,881)	—
At 30 September 2001	27,525	52,045	425	2,870	807	5,180	6,881	431,001	526,734
At 1 April 2002	27,525	52,045	425	—	807	5,180	12,386	457,797	556,165
Profit attributable to shareholders	—	—	—	—	—	—	—	35,463	35,463
2002 final dividend paid	—	—	—	—	—	—	(12,386)	—	(12,386)
2003 interim dividend declared	—	—	—	—	—	—	5,505	(5,505)	—
At 30 September 2002	27,525	52,045	425	—	807	5,180	5,505	487,755	579,242

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 September 2002*

	(Unaudited)	
	Six months ended	
	30 September	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated from operating activities	6,385	23,935
Net cash generated from (used in)		
investing activities	7,758	(10,217)
Net cash used in financing activities	(4,249)	(15,548)
Increase (decrease) in cash and cash equivalents	9,894	(1,830)
Cash and cash equivalents at 1 April	66,873	51,759
Cash and cash equivalents at 30 September	76,767	49,929

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 September 2002

1. Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

2. Principal accounting policies

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and investment securities stated at fair value.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2002.

In the current period, the Group has adopted the following new or revised SSAPs which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 11 (Revised)	Foreign currency translation
SSAP 15 (Revised)	Cash flow statements

The adoption of these standards has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment was required.

3. Segment information

The Group's operation is regarded as a single segment, being an enterprise engaged in the trading of watch.

4. Profit before taxation

Six months ended	
30 September	
2002	2001
HK\$'000	HK\$'000

Profit before taxation has been arrived at after charging:

Depreciation and amortisation of property,

plant and equipment

— owned by the Group

2,375 2,180

— held under a finance lease

35 20

and after crediting:

Amortisation of negative goodwill

(included in other operating income)

101 —

Gross property rental income

506 1,828

Interest income

737 1,196

5. Taxation

	Six months ended	
	30 September	
	2002	2001
	HK\$'000	HK\$'000
Hong Kong Profits Tax calculated at 16% on the estimated assessable profit for the period	7,070	8,102
Mainland China (the "PRC") income tax	207	97
	7,277	8,199
Deferred taxation	(20)	(21)
	7,257	8,178

The PRC income tax is calculated at the applicable rates pursuant to the relevant laws and regulations in the PRC.

6. Dividend

During the six months ended 30 September 2002, a final dividend of 4.5 Hong Kong cents per share, totalling approximately HK\$12,386,000, in respect of the year ended 31 March 2002 was approved at the annual general meeting held on 30 August 2002 and subsequently paid to the shareholders.

On 18 December 2002, the directors resolved to declare an interim dividend of 2.0 Hong Kong cents per share in respect of the six months ended 30 September 2002 (six months ended 30 September 2001: 2.5 Hong Kong cents per share), totalling approximately HK\$5,505,000 (six months ended 30 September 2001: HK\$6,881,000), to be paid in cash to those shareholders whose names appear on the Company's register of members on 9 January 2003.

7. Earnings per share

The calculation of the basic and diluted earnings per share are based on the following data:

	Six months ended	
	30 September	
	2002	2001
Profit attributable to shareholders	HK\$35,463,000	HK\$40,060,000
Weighted average number of shares for the purpose of calculating basic earnings per share	275,253,200	275,253,200
Potential dilutive shares issuable under the Company's share option scheme	—	5,295,547
Weighted average number of shares for the purpose of calculating diluted earnings per share	275,253,200	280,548,747

8. Trade and other receivables

Invoices are normally payable within 30 days of issuance, except for certain well established customers.

The following is an aged analysis of trade receivables at the reporting date:

	30 September	31 March
	2002	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Age		
0 to 30 days	45,732	9,340
31 to 60 days	1,198	80
	46,930	9,420

9. Trade and other payables

The following is an aged analysis of trade payables at the reporting date:

	30 September	31 March
	2002	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Age		
0 to 60 days	66,382	27,977
61 to 90 days	1,862	1,973
Over 90 days	2,961	189
	71,205	30,139

BUSINESS REVIEW AND PROSPECTS

The Group's unaudited consolidated turnover for the period under review was HK\$876,404,000 (2001: HK\$846,757,000), representing an increase of approximately 3.5% against the corresponding period last year. Profit attributable to shareholders was HK\$35,463,000 (2001: HK\$40,060,000), representing a drop of 11.5% when compared with the previous period. Basic earnings per share declined by 11.5% to 12.88 cents (2001: 14.55 cents).

Burdened with the sluggish global economy and poor domestic consumption during the first half year, the retail market remained in the doldrums. The Group recorded a growth in turnover while profit margin languished reflecting customers' cautious attitude and keen market competition.

Hong Kong's economy is still retracting from its glorious 90's, suffering from ballooning fiscal deficit, negative-wealth effect due to drastic fall in property prices, prolonged deflation and high unemployment rate. However, Hong Kong will continue to serve as the Group's main operating base and the scale of operations in Hong Kong will be maintained at present levels. The market in China looks to be highly promising, and Hong Kong has enough potential to play a more than important role in a global economic world with China being one of the key players. In order to capture the vast retail market in China, full effort will be made to further expand our retail network in Shanghai, Beijing and other major cities of China in the near future. With past experience and stable financial position, the Group is confident that such expansion will further strengthen the Group's distribution and marketing channels in China.

In September we moved our retail outlet at No. 140 Zhong Shan 4th Road, Guangzhou to Hualian Shopping Centre, 219 Zhong Shan 5th Road, Guangzhou, China due to the expiration of the former lease.

Overall, the Board believes that, due to the retail market's current angst and the difficult business operating environment in the past few years, the Group will continue its prudent management and investment approach in applying the Group's financial resources in order to maintain its striking resilience and competitive edge, thereby preparing the Group to take advantage of better economic conditions in the future.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 September 2002, the Group's total shareholder's funds amounted to HK\$579 million, compared with HK\$556 million at 31 March 2002. The Group's bank and other borrowings were immaterial when compared to shareholders' fund.

The Group had net current assets of HK\$478 million, including bank and cash balances of HK\$91 million as at 30 September 2002 compared with balances of HK\$454 million and HK\$93 million respectively as at 31 March 2002.

The Group has a strong financial position and satisfactory operating results. It will continue with its policy of conservative capital management to maintain balance sheet and other ratios at prudent levels. The Board believes that the Group has sufficient financial resources to meet its planned commitments and funding requirements.

STAFF AND EMPLOYMENT

As at 30 September 2002, the Group employed a total work force of about 160 staff. The staff turnover rate is very low. The Group's policy is to review its employee's pay levels and incentive bonus system regularly to ensure that the remuneration package is competitive with relevant industries.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 2002, the interests of the directors and their associates in the shares of the Company as recorded in the register maintained by the Company under Section 29 of Hong Kong's Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of director	Number of shares held			
	Personal interest	Family interest	Corporate interest	Other interest
Yeung Ming Bui	10,787,260	6,000,000	96,800,000	—
			<i>Note (a)</i>	
Siu Leung Wai	—	—	6,069,244	<i>Note (c)</i>
			<i>Note (b)</i>	
Fung Kwong Yiu	1,803,152	—	—	<i>Note (c)</i>
Chan Che Kwong, William	9,778,515	—	—	<i>Note (d)</i>
Yeung Man Yee, Shirley	—	167,547	—	<i>Note (e)</i>
Yeung Him Kit, Dennis	—	—	—	<i>Note (f)</i>
Sun Ping Hsu, Samson, Dr.	—	—	2,000,000	—
			<i>(note g)</i>	
Li Sau Hung, Eddy, Dr.	—	—	—	—

Notes:

- (a) Mr. Yeung Ming Biu and his wife, Madam Au Po Kee, are the beneficial owners of 45% and 22.5% respectively of the issued share capital of Realtower Holdings Limited. Realtower Holdings Limited is the beneficial owner of 55% of the issued share capital of Furama Investments Limited, which is the beneficial owner of 80% of the issued share capital of Datsun Holdings Limited. Datsun Holdings Limited is the beneficial owner of 96,800,000 shares in the Company.
- (b) Mr. Siu Leung Wai and his family members are the beneficial owners of the entire issued share capital of Power Dragon Holdings Limited, which is the beneficial owner of 6,069,244 shares in the Company.
- (c) Messrs. Siu Leung Wai and Fung Kwong Yiu are the beneficial owners of 21% and 6% respectively of the issued share capital of Real Champ Limited, which is the beneficial owner of 20% of the issued share capital of Datsun Holdings Limited.
- (d) Mr. Chan Che Kwong, William is the beneficial owner of 10% of the issued share capital of Furama Investment Limited and 10% of the issued share capital of Y.H. Chan Limited, which is the beneficial owner of 25% of the issued share capital of Furama Investments Limited. Y.H. Chan Limited also directly holds 294,365 shares in the Company.
- (e) Madam Yeung Man Yee, Shirley is the beneficial owner of 7.5% of the issued share capital of Realtower Holdings Limited.
- (f) Mr. Yeung Him Kit, Dennis is the beneficial owner of 10% and 7% of the issued share capital of Realtower Holdings Limited and Real Champ Limited respectively.
- (g) Dr. Sun Ping Hsu, Samson and his family members are beneficial owners of the entire issued share capital of Sun International Limited, which is the beneficial owner of 2,000,000 shares in the Company.

Save as disclosed above and other than certain nominee shares in subsidiaries held by a director in trust for the Group, none of the directors or their associates as at 30 September 2002 had any interest in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2002, according to the register maintained under Section 16(1) of the SDI Ordinance, the following persons, in addition to those directors who are listed above under "Directors' interests in securities", are interested in 10% or more of the issued share capital of the Company:

Name of shareholder	Number of shares
Datsun Holdings Limited	96,800,000
Furama Investments Limited	96,800,000
Realtower Holdings Limited	96,800,000

Realtower Holdings Limited holds 55% of the issued share capital of Furama Investments Limited which holds 80% of the issued share capital of Datsun Holdings Limited. Accordingly, both Realtower Holdings Limited and Furama Investments Limited are deemed under the SDI Ordinance to be interested in the 96,800,000 shares in the Company which are held by Datsun Holdings Limited.

Messrs. Yeung Ming Biu, Siu Leung Wai, Fung Kwong Yiu, Chan Che Kwong, William, Yeung Him Kit, Dennis, Madam Au Po Kee (wife of Mr. Yeung Ming Biu) and Madam Yeung Man Yee, Shirley are deemed by the SDI Ordinance to be interested in the shares of the Company beneficially owned by Datsun Holdings Limited in the manner described under "Directors' interests in securities".

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company as at 30 September 2002.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 6 January 2003 to 9 January 2003 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the proposed interim dividend which is payable on 16 January 2003, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars, Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not later than 4:00p.m. on 3 January 2003.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 September 2002, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities on The Stock Exchange of Hong Kong Limited.

CODE OF BEST PRACTICE FOR DIRECTORS

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 September 2002, in compliance with the Code of Best Practice set out in Appendix 14 to the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group as well as financial reporting matters including the review of the unaudited interim financial statements.

By Order of the Board

Yeung Ming Bui

Chairman and Managing Director

Hong Kong, 18 December 2002