



**Oriental Watch Holdings Limited**

*(Incorporated in Bermuda with limited liability)*

**Interim Report 2003**



## 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 2003 together with the comparative figures for the corresponding period in 2002 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 30 September 2003*

		(unaudited)	
		Six months ended	
		30 September	
		2003	2002
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		<b>748,761</b>	876,404
Cost of goods sold		<b>(678,932)</b>	(797,852)
Gross profit		<b>69,829</b>	78,552
Other operating income		<b>5,285</b>	6,378
Distribution costs		<b>(15,431)</b>	(14,559)
Administrative expenses		<b>(24,068)</b>	(26,868)
Profit from operations		<b>35,615</b>	43,503
Finance costs		<b>(620)</b>	(783)
Profit before taxation	4	<b>34,995</b>	42,720
Taxation	5	<b>(5,895)</b>	(7,257)
Net profit attributable to shareholders		<b>29,100</b>	35,463
Dividend	6	<b>5,505</b>	5,505
Earnings per share			
— Basic	7	<b>10.57 cents</b>	12.88 cents

**CONDENSED CONSOLIDATED BALANCE SHEET**

At 30 September 2003

		(unaudited) 30 September 2003 HK\$'000	(audited) 31 March 2003 HK\$'000
	Notes		
<b>Non-current assets</b>			
Investment properties		12,000	12,000
Property, plant and equipment		77,147	77,264
Negative goodwill		(3,525)	(3,626)
Investments in securities		8,770	8,798
		<b>94,392</b>	94,436
<b>Current assets</b>			
Inventories		496,217	446,718
Trade and other receivables	8	44,669	32,797
Investments in securities		755	610
Taxation recoverable		635	706
Pledged bank deposits		5,950	9,550
Bank balances and cash		108,185	101,069
		<b>656,411</b>	591,450
<b>Current liabilities</b>			
Trade and other payables	9	103,777	53,785
Obligations under a finance lease due within one year		78	78
Taxation payable		3,870	1,649
Secured short-term bank loans		19,811	24,245
Bank overdrafts		—	2,034
		<b>127,536</b>	81,791
Net current assets		<b>528,875</b>	509,659
Total assets less current liabilities		<b>623,267</b>	604,095
<b>Non-current liabilities</b>			
Obligations under a finance lease due after one year		7	46
Deferred taxation		176	290
		<b>183</b>	336
Net assets		<b>623,084</b>	603,759
<b>Capital and reserves</b>			
Share capital		27,525	27,525
Reserves		595,559	576,234
Shareholders' funds		<b>623,084</b>	603,759

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2003

	Share capital	Share premium	Share redemption reserve	Other properties revaluation reserve	Special reserve	Retained profits	Dividend (Unaudited) reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2002	27,525	52,045	425	807	5,180	457,797	12,386	556,165
Net 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	487,755	5,505	579,242
At 1 April 2003	27,525	52,045	425	807	5,180	508,143	9,634	603,759
Deferred taxation	—	—	—	(141)	—	—	—	(141)
Net profit attributable to shareholders	—	—	—	—	—	29,100	—	29,100
2003 final dividend paid	—	—	—	—	—	—	(9,634)	(9,634)
2004 interim dividend declared	—	—	—	—	—	(5,505)	5,505	—
At 30 September 2003	27,525	52,045	425	666	5,180	531,738	5,505	623,084

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2003

	(Unaudited)	
	Six months ended	
	30 September	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated from operating activities	<b>20,786</b>	6,385
Net cash generated from investing activities	<b>2,471</b>	7,758
Net cash used in financing activities	<b>(14,107)</b>	(4,249)
Increase in cash and cash equivalents	<b>9,150</b>	9,894
Cash and cash equivalents at 1 April	<b>99,035</b>	66,873
Cash and cash equivalents at 30 September	<b>108,185</b>	76,767

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 September 2003*

### 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 (“HKSA”).

### 2. **Principal Accounting Policies**

The condensed consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and trading securities.

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 2003 except as described below.

In the current period, the Group has adopted SSAP 12 (Revised) “Income taxes” (“SSAP 12 (Revised)”), for the first time, issued by the HKSA. SSAP 12 (Revised) has introduced a new basis of accounting for income taxes (including both current tax and deferred tax) which have been adopted in these condensed financial statements.

SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has had no significant impact 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 watch trading.

The following is an analysis of the Group's geographical segment information:

	Turnover		Profit	
	Six months ended		from operations	
	30 September		Six months ended	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	<b>658,630</b>	802,718	<b>35,372</b>	42,718
Mainland China (the "PRC")	<b>90,131</b>	73,686	<b>243</b>	785
	<b>748,761</b>	876,404	<b>35,615</b>	43,503

### 4. Profit before Taxation

	Six months ended	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation has been arrived at after charging:		
Depreciation and amortisation of property, plant and equipment		
— owned by the Group	<b>1,808</b>	2,375
— held under a finance lease	<b>19</b>	35
and after crediting:		
Amortisation of negative goodwill (included in other operating income)	<b>101</b>	101
Gross property rental income	<b>282</b>	506
Interest income	<b>581</b>	737

## 5. Taxation

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2003</b>	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong Profits Tax calculated at 17.5% (2002: 16%) on the estimated assessable profit for the period	<b>5,947</b>	7,070
PRC income tax	<b>203</b>	207
	<b>6,150</b>	7,277
Deferred taxation	<b>(255)</b>	(20)
	<b>5,895</b>	7,257

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 2003, a final dividend of 3.5 Hong Kong cents per share, totalling HK\$9,634,000, in respect of the year ended 31 March 2003 was approved at the annual general meeting held on 28 August 2003 and subsequently paid to the shareholders.

On 16 December 2003, 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 2003 (2002: 2.0 Hong Kong cents per share), totalling HK\$5,505,000 (2002: HK\$5,505,000), to be paid in cash to those shareholders whose names appear on the Company's register of members on 9 January 2004.



## 7. Earnings per Share

The calculation of the basic earnings per share is based on the net profit attributable to shareholders of HK\$29,100,000 (2002: HK\$35,463,000) and the number of 275,253,200 (2002: 275,253,200) shares in issue during the period.

## 8. Trade and Other Receivables

The Group maintains a general credit policy of not more than 30 days for its established and major customers. The following is an aged analysis of trade receivables at the reporting date:

	<b>30 September</b>	<b>31 March</b>
	<b>2003</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Age		
0 to 30 days	30,878	21,559
31 to 60 days	—	1,339
61 to 90 days	—	69
Over 90 days	430	—
	<hr/>	<hr/>
	31,308	22,967
	<hr/> <hr/>	<hr/> <hr/>

## 9. Trade and Other Payables

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

	<b>30 September</b>	<b>31 March</b>
	<b>2003</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Age		
0 to 60 days	84,356	40,986
61 to 90 days	4,203	260
Over 90 days	83	1,154
	<hr/>	<hr/>
	88,642	42,400
	<hr/> <hr/>	<hr/> <hr/>

## BUSINESS REVIEW AND PROSPECTS

The Group's unaudited consolidated turnover for the period under review was HK\$748,761,000 (2002: HK\$876,404,000), representing a decrease of approximately 14.6% against the corresponding period last year. Net profit attributable to shareholders was HK\$29,100,000 (HK\$35,463,000), representing a drop of 17.9% when compared with the previous period. Basic earnings per share declined by 17.9% to 10.57 Hong Kong cents (2002: 12.88 Hong Kong cents).

The Severe Acute Respiratory Syndrome (SARS) health crisis in the early quarter of the period devastated Hong Kong's retail market. As Hong Kong's tourist industry moved to a standstill, the local people also shunned the unusual high traffic areas of the retail market. This was the major cause of the significant decrease in turnover and earnings during the period directly affected by the crisis. Fortunately, the effect only been short term and once Hong Kong was declared free of SARS crisis, the economy saw a strong rebound. The Group worked to take advantage of the rebound and to minimize the impact of the affected months for the period.

The recent signing of the Closer Economic Partnership Arrangement (CEPA) between the Central Government of PRC and the Government of Hong Kong will not only boost the stagnated economy of Hong Kong, it will also provide new opportunities for the Group. With the more relaxed policy towards individual travelers from the Mainland China, Hong Kong had seen a strong new group of potential customers. In view of this the Group has opened a new retail outlet in the highly visited area Tsim Sha Tsui (39 Carnavon Road). The shop is located at a corner lot with prime exposure. The preliminary results from this new shop is encouraging.

Although the SARS incident has retarded our development in the China market, our short to mid-term goal of establishing a retail network in the major cities of the PRC has not changed. Recently, the Group has opened a new shop bearing the Oriental Watch Company name in a major department store in Nanjing. To date, the Group was satisfied with the performance of this shop.

As business in China become more significant to the development of the Group, the fluctuation of the RMB will be an increasing important issue. Due to the current world economic situation, the PRC Government is facing strong pressure from other countries to alter the RMB exchange rate. The management will be monitoring this development closely and will be prepared for any outcome.

Although the Group is continuing to further develop the PRC market, the debt/equity ratio is still relatively low and the cash position is strong. Thus the Group will have no difficulty in financing the upcoming projects. The start of the second half of the financial period is promising; the Group has confidence that the remaining six months will be better than the interim results. With consideration of the above issues, the Board of Directors suggests an interim dividend payout of 2 cents per share, equivalent to the last period with a dividend/earning ratio slightly higher.

The management will continue to standby its strict cost and stock controls in order to better equip the Company as opportunities arise in the retail market.

On behalf of the Company, I would like to thank the support of our suppliers and shareholders. Wish you all a happy Christmas and Prosperous New year.

## **LIQUIDITY AND CAPITAL RESOURCES**

As at 30 September 2003, the Group's total shareholder's funds amounted to HK\$623 million, compared with HK\$604 million at 31 March 2003. The Group's bank and other borrowings were insignificant when compared to shareholders' fund.

The Group had net current assets of HK\$529 million, including bank and cash balances of HK\$114 million as at 30 September 2003 compared with balances of HK\$510 million and HK\$110 million respectively as at 31 March 2003.

The financial position of the Group is strong with adequate funds and unused banking facilities. The Board believes that the Group has sufficient internal finance resources to discharge its debts and to finance its operations and capital expenditure.

## **STAFF AND EMPLOYMENT**

As at 30 September 2003, the Group employed a total work force of about 170 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 2003, 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 the 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 Biu	10,787,260	6,000,000	96,800,000	—
			<i>Note (a)</i>	
Fung Kwong Yiu	1,803,152	—	—	<i>Note (b)</i>
Chan Che Kwong, William	622,515	—	—	<i>Note (c)</i>
Yeung Man Yee, Shirley	—	167,547	—	<i>Note (d)</i>
Yeung Him Kit, Dennis	—	—	—	<i>Note (e)</i>
Lam Hing Lun, Alain	—	—	—	—
Choi Kwok Yum	—	—	—	—
Sun Ping Hsu, Samson, Dr.	—	—	2,000,000	—
			<i>(note f)</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. Fung Kwong Yiu is the beneficial owners of 6% 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.
- (c) 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.
- (d) Madam Yeung Man Yee, Shirley is the beneficial owner of 7.5% of the issued share capital of Realtower Holdings Limited.
- (e) 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.
- (f) 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 2003 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 2003, 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:

<b>Name of shareholder</b>	<b>Number of shares</b>
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, 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 2003.

### **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from 6 January 2004 to 9 January 2004 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the interim dividend which is payable on or about 15 January 2004, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars, Secretaries Limited at Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00p.m. on 5 January 2004.

### **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 accounting period in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

During the six months ended 30 September 2003, 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.



## **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*

Hong Kong, 16 December 2003