ASIA COMMERCIAL HOLDINGS LIMITED
冠亞商業集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 104)

ANNOUNCEMENT OF AUDITED RESULTS FOR THE YEAR ENDED 31ST MARCH, 2006

RESULTS

The Board of Directors (the "Board") of Asia Commercial Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31st March, 2006 as follows:

Consolidated Income Statement

		Year ended 31st March,	
		2006	2005
	Notes	***HK$'000***	*HK$'000*
TURNOVER	4	**330,233**	255,650
COST OF SALES		**(200,614)**	(155,961)
GROSS PROFIT		**129,619**	99,689
OTHER REVENUE	4	**12,801**	9,069
DISTRIBUTION COSTS		**(104,992)**	(88,454)
ADMINISTRATIVE EXPENSES		**(10,811)**	(14,515)
OTHER OPERATING EXPENSES, NET	6	**(16,640)**	(10,026)
FINANCE COSTS	7	**(1,348)**	(1,349)
OTHER (EXPENSES)/INCOME, NET	8	**(1,094)**	10,781
SHARE OF RESULTS OF AN ASSOCIATE		**(100)**	(167)
PROFIT BEFORE TAXATION	9	**7,435**	5,028
INCOME TAX	10	**(2,249)**	(933)
PROFIT FOR THE YEAR		**5,186**	4,095
ATTRIBUTABLE TO			
– EQUITY HOLDERS OF THE PARENT		**5,414**	4,386
– MINORITY INTERESTS		**(228)**	(291)
		5,186	4,095
DIVIDEND	11	**–**	–
EARNINGS PER SHARE	12	**1.62 cents**	1.31 cents

Consolidated Balance Sheet

	Notes	At 31st March, 2006 HK$'000	2005 HK$'000 (Restated)
Non-current Assets			
Property, plant and equipment		**24,391**	19,844
Prepaid lease payments		**8,839**	3,272
Investment properties		**13,133**	20,146
Goodwill		**2,081**	3,261
Intangible assets		**–**	–
Interest in an associate		**1,123**	1,190
Available-for-sale investments		**430**	–
Investments in securities – investment securities		**–**	984
		49,997	48,697
Current Assets			
Inventories – goods for resale		**106,295**	100,349
Prepaid lease payments		**110**	30
Trade and other receivables, deposits and prepayments	13	**34,983**	28,060
Short-term bank deposits		**95,109**	95,214
Bank balances and cash		**22,133**	25,251
Properties held for resale		**–**	6,230
		258,630	255,134
Current Liabilities			
Trade and other payables and accrued charges	14	**63,572**	60,225
Income tax payable		**946**	260
		64,518	60,485
Net Current Assets		**194,112**	194,649
Total Assets Less Current Liabilities		**244,109**	243,346
Non-current Liabilities			
Rental received in advance		**2,643**	2,996
Convertible notes		**71,496**	70,690
		74,139	73,686
NET ASSETS		**169,970**	169,660
CAPITAL AND RESERVES			
Share capital		**333,719**	333,719
Reserves		**(164,070)**	(164,590)
Equity attributable to			
Equity holders of the parent		**169,649**	169,129
Minority interests		**321**	531
TOTAL EQUITY		**169,970**	169,660

Notes:

1. REVIEW OF THE RESULTS

The financial results for the year ended 31st March, 2006 have been reviewed by the Audit Committee of the Company.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INT") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has also resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented:

(i) Share-based payments

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from accounting period commencing from 1st January, 2005, in order to comply with HKFRS 2, the Group has adopted a new policy for share options. Under the new policy, the Group recognises the fair value of such share options as an expense with a corresponding increase recognised in a capital reserve within equity.

The new accounting policy has been applied retrospectively with comparatives restated, except that the Group has taken advantage of the transitional provisions set out in HKFRS 2, under which the new recognition and measurement policies have not been applied to the following grants of options:

(a) all options granted to employees on or before 7th November, 2002; and

(b) all options granted to employees after 7th November, 2002 but which had vested before 1st April, 2005.

No adjustments to the opening balances as at 1st April, 2004 are required as no options existed at that time which were unvested at 1st April, 2005.

(ii) Amortisation of positive and negative goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)

In prior years:

– positive or negative goodwill which arose prior to 1st January, 2001 was taken directly to reserves at the time it arose, and was not recognised in the income statement until disposal or impairment of the acquired business;

– positive goodwill which arose on or after 1st January, 2001 was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment; and

– negative goodwill which arose on or after 1st January, 2001 was amortised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the income statement as those expected losses were incurred.

With effect from accounting period commencing from 1st January, 2005, in order to comply with HKFRS 3 and HKAS 36, the Group has changed its accounting policies relating to goodwill. Under the new policy, the Group no longer amortises positive goodwill but tests it at least annually for impairment. Also with effect from accounting period commencing from 1st January, 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in profit or loss as it arises.

The new policy in respect of the amortisation of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. The adjustments for each consolidated financial statement line affected for the year ended 31st March, 2006 are set out in note 3.

Also in accordance with the transitional arrangements under HKFRS 3, goodwill which had previously been taken directly to reserves (i.e. goodwill which arose before 1st January, 2001) will not be recognised in profit or loss on disposal or impairment of the acquired business, or under any other circumstances.

The change in policy relating to negative goodwill had no effect on the financial statements as there was no negative goodwill deferred as at 31st March, 2005.

(iii) Financial instruments

HKAS 32 "Financial Instruments: Disclosure and Presentation" requires retrospective application whereas HKAS 39 "Financial Instruments: Recognition and Measurement", which is effective for accounting periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The adoption of HKAS 32 has had no material effect on the Group's accumulated losses. The principal effects on the Group as a result of implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Financial assets and financial liabilities

From 1st April, 2005 onwards, the Group has classified and measured its financial assets and financial liabilities in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". "Financial liabilities at fair value through profit or loss" are measured at fair value, with changes in fair value being recognised in profit or loss directly. "Other financial liabilities" are carried at amortised cost using the effective interest method after initial recognition. The adoption of HKAS 39 has had no material effect on the Group's accumulated losses.

Convertible Notes

HKAS 32 requires an issuer of a compound financial instrument (that contains both financial liability and equity components) to separate the compound financial instrument into the liability and equity components on its initial recognition and to account for these components separately.

In subsequent periods, the liability component as carried at amortised cost using the effective interest method. The principal impact of HKAS 32 on the Group is in relation to convertible notes issued by the Company that contain both liability and equity components. Given the convertible notes of the Company contain only liability components and was previously classified as liabilities on the balance sheet. Comparative figures need not be restated. The fair value of the Convertible Notes at 31st March, 2006 approximated to the corresponding carrying amount in accordance with a valuation report prepared by an independent valuer.

(iv) Leasehold land and buildings (HKAS 17, Leases)

Leasehold land and buildings held for own use

In prior years, leasehold land and buildings held for own use were stated at revalued amounts less accumulated depreciation and accumulated impairment losses. Movements of revaluation surpluses or deficits were normally taken to the land and buildings revaluation reserve.

With effect from accounting period commencing from 1st January, 2005, in order to comply with HKAS 17, the Group has adopted a new policy for leasehold land and buildings held for own use. Under the new policy, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the cost of the interest in any buildings situated on the leasehold land could be measured separately from the cost of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

(v) Investment property (HKAS 40, Investment property and HKAS Interpretation 21, Income taxes – Recovery of revalued non-depreciable assets)

Changes in accounting policies relating to investment properties are as follows:

Timing of recognition of movements in fair value in the income statement

In prior years, movements in the fair value of the Group's investment property were recognised directly in the investment property revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on the portfolio, or when a deficit previously recognised in the income statement had reversed, or when an individual investment property was disposed of. In these limited circumstances movements in the fair value were recognised in the income statement.

In addition, in prior years, land (including leasehold land) which the Group held for an undetermined future purpose was accounted for under the valuation model in SSAP 17, *Property, plant and equipment,* whereby the land was carried at fair value, with any movements in the fair value of the land being normally taken to the land and buildings revaluation reserve, net of deferred tax thereon.

Upon adoption of HKAS 40 as from accounting period commencing from 1st January, 2005, the Group has adopted a new policy for investment property. Under this new policy:

– all changes in the fair value of investment property are recognised directly in the income statement ("profit or loss") in accordance with the fair value model in HKAS 40; and

– land held for an undetermined future purpose is recognised as investment property if the property is freehold or, if the property is leasehold, the Group has chosen to recognise such land as investment property rather than as land held under an operating lease.

Measurement of deferred tax on movements in fair value

In prior years, the Group was required to apply the tax rate that would be applicable to the sale of investment property to determine whether any amounts of deferred tax should be recognised on the revaluation of investment property. Consequently, deferred tax was only provided to the extent that tax allowances already given would be clawed back if the property were disposed of at its carrying value, as there would be no additional tax payable on disposal.

As from accounting period commencing from 1st January, 2005, in accordance with HKAS Interpretation 21, the Group recognises deferred tax on movements in the value of an investment property using tax rates that are applicable to the property's use, if the Group has no intention to sell it and the property would have been depreciable had the Group not adopted the fair value model.

(vi) Definition of related parties (HKAS 24, Related party disclosures)

As a result of the adoption of HKAS 24, *Related party disclosures*, the definition of related parties has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had SSAP 20, *Related party disclosures*, still been in effect.

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described in note 2 on the results is as follows:

The adoption of HKFRS 3 resulted in an increase in goodwill as at 31st March, 2006 by HK$461,000 and decrease in administrative expenses for the year ended 31st March, 2006 by the same amount.

There was no impact on the balance sheet and income statement upon the adoption of HKFRS 2.

The cumulative effects of the changes in accounting policies on 31st March, 2005 and 1st April, 2005 are summarized below:

	At 31st March, 2005 (Originally stated)	HKAS 1 and HKAS 27 Adjustment	HKAS 17 Adjustment	At 31st March, 2005 (Restated)	HKAS39 Adjustment	HKAS 40 Adjustment	HKFRS 3 Adjustment	At 1st April, 2005 (Restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	23,146	–	(3,302)	19,844	–	–	–	19,844
Prepaid lease payments								
– non current portion	–	–	3,272	3,272	–	—	–	3,272
– current portion	–	–	30	30	–	–	–	30
Investment in securities								
– investment securities	984	–	–	984	(984)	–	–	–
Available-for-sale investments	–	—	–	–	984	–	–	984
Total effects on assets	24,130	–	–	24,130	–	–	–	24,130
Accumulated losses	(331,993)	–	–	(331,993)	–	4,632	(95,411)	(422,772)
Investment property revaluation reserve	4,632	–	–	4,632	–	(4,632)	–	–
Capital reserve	156,970	–	–	156,970	–	–	95,411	252,381
Minority interests	–	531	–	531	–	–	–	531
Total effects on equity	(170,391)	531	–	(169,860)	–	–	–	(169,860)
Minority interests	531	(531)	–	–	–	–	–	–

As a result of the application of HKAS 1 "Presentation of Financial Statements" and HKAS 27 "Consolidated and Separate Financial Statements", minority interests amounting to HK$531,000 as at 1st April, 2005 is presented within equity.

4. TURNOVER AND OTHER REVENUE

Turnover represents the gross proceeds received and receivable derived from the sales of watches, property rental and provision of programming service and is summarized as follows:

	2006	2005
	HK$'000	*HK$'000*
Turnover		
Sales of watches	**327,125**	249,378
Rental income		
Investment properties	**964**	3,633
Others	**–**	83
	964	3,716
Programming service	**2,144**	2,556
	330,233	255,650
Other revenue		
Interest income from other than short-term bank deposits	**301**	104
Interest income from short-term bank deposits	**2,633**	802
Customer services income and others	**9,867**	8,163
	12,801	9,069
	343,034	264,719

5. SEGMENT INFORMATION

(i) Business segment

Details of the segment information by business segments are as follows:

	Year ended 31st March, 2006					
	Sales of watches *HK$'000*	**Property-related business** *HK$'000*	**Program-ming service** *HK$'000*	**Corporate** *HK$'000*	**Elimination** *HK$'000*	**Consolidated** *HK$'000*
Segment revenue						
– External sales	**327,125**	**964**	**2,144**	**–**	**–**	**330,233**
– Inter-segment sales	**–**	**–**	**1,553**	**–**	**(1,553)**	**–**
	327,125	**964**	**3,697**	**–**	**(1,553)**	**330,233**
Segment results	**18,483**	**(632)**	**(2,018)**	**(5,856)**	**–**	**9,977**
Finance costs						**(1,348)**
Other expenses, net	**(88)**	**728**	**(5)**	**(1,729)**	**–**	**(1,094)**
Share of results of an associate	**–**	**–**	**(100)**	**–**	**–**	**(100)**
Profit before taxation						**7,435**
Income tax						**(2,249)**
Profit for the year						**5,186**

	Year ended 31st March, 2005					
	Sales of watches *HK$'000*	Property-related business *HK$'000*	Program-ming service *HK$'000*	Corporate *HK$'000*	Elimination *HK$'000*	Consolidated *HK$'000*
Segment revenue						
– External sales	249,378	3,716	2,556	–	–	255,650
– Inter-segment sales	–	4	1,191	–	(1,195)	–
	249,378	3,720	3,747	–	(1,195)	255,650
Segment results	4,304	231	(2,420)	(6,352)	–	(4,237)
Finance costs						(1,349)
Other income, net	(212)	11,453	(29)	(431)	–	10,781
Share of results of an associate	–	–	(167)	–	–	(167)
Profit before taxation						5,028
Income tax						(933)
Profit for the year						4,095

(ii) Geographical segment

Details of the segment information by geographical segments are as follows:

	Year ended 31st March,			
	2006		2005	
	Segment revenue *HK$'000*	**Contribution to operating profit** *HK$'000*	Segment revenue *HK$'000*	Contribution to operating loss *HK$'000*
The Mainland China, excluding Hong Kong	**318,729**	**20,279**	247,999	3,666
Hong Kong	**7,499**	**(10,006)**	3,169	(7,866)
Others	**4,005**	**(296)**	4,482	(37)
	330,233		255,650	
Profit/(loss) from operations		**9,977**		(4,237)

6. OTHER OPERATING EXPENSES, NET

	2006 *HK$'000*	2005 *HK$'000*
Impairment for bad and doubtful debts	**–**	1,169
Impairment on properties held for resale	**–**	10
Impairment for slow-moving inventories	**16,934**	10,280
Reversal of impairment on properties held for resale	**(294)**	–
Reversal of impairment for bad and doubtful debts	**–**	(1,086)
Reversal of trade and other payables	**–**	(347)
	16,640	10,026

7. FINANCE COSTS

	2006 *HK$'000*	2005 *HK$'000*
Convertible notes:		
Interest payable	**376**	377
Amortization of premium on redemption	**972**	972
Total borrowing costs	**1,348**	1,349

8. OTHER (EXPENSES)/INCOME, NET

	2006 *HK$'000*	2005 *HK$'000*
Impairment loss recognized in respect of goodwill	**(1,180)**	–
Impairment on available-for-sale investments	**(554)**	–
Write off of property, plant and equipment	**(93)**	(212)
Amortization of goodwill	**–**	(461)
Management fee	**–**	(6,013)
Impairment for leasehold property	**–**	(747)
Surplus/(deficit) arising from valuation of investment properties	**728**	(3,006)
Loss on disposal of property interests in Dongguan	**–**	(170)
Profit on disposal of leasehold property	**–**	283
Profit on liquidation of a subsidiary	**5**	–
Final receipt of consideration from disposal of the Lakeview Project	**–**	21,107
	(1,094)	10,781

9. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after crediting and charging the following:

	2006 *HK$'000*	2005 *HK$'000*
Crediting:		
Profit on disposal of property, plant and equipment	**–**	79
Profit on disposal of leasehold property	**–**	283
Surplus arising from valuation of investment properties	**728**	–
Charging:		
Depreciation and amortization	**7,169**	5,371
Amortization on goodwill	**–**	461
Loss on disposal of property interest in Dongguan	**–**	170
Impairment on leasehold property	**–**	747
Deficit arising from valuation of an investment property	**–**	3,006
Cost of inventories recognized as expenses	**217,273**	167,442

10. INCOME TAX

	The Group	
	2006 *HK$'000*	2005 *HK$'000*
Current:		
Hong Kong	**–**	–
Outside Hong Kong	**2,249**	933
	2,249	933

Hong Kong Profits Tax is calculated at a rate of 17.5% (2005: 17.5%) of the estimated assessable profit for the year. No Hong Kong Profits Tax is provided because the assessable profits generated during the year 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.

11. DIVIDEND

The Directors do not recommend payment of any dividend for the year ended 31st March, 2006 (2005: Nil).

12. EARNINGS PER SHARE

	2006	2005
Earnings for the year attributable to equity holders of the parent and earnings for the purpose of basic earnings per share	**HK$5,414,000**	HK$4,386,000
Average number of ordinary share	**333,719,516**	333,719,516

No disclosure of the diluted earning per share for the year under review and the corresponding previous year is shown as the issue of potential ordinary shares during both years from the exercise of the outstanding share options will be anti-dilutive.

13. **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 the trade receivables of HK$23,065,000 (2005: HK$16,287,000) which are included in the Group's trade and other receivables, deposits and prepayments at the balance sheet date is as follows:

	2006	2005
	HK$'000	*HK$'000*
Trade receivables		
Up to 90 days	**21,247**	14,918
91 to 180 days	**1**	71
Over 180 days	**1,817**	1,298
	23,065	16,287
Other receivables, deposits and prepayments	**11,918**	11,773
	34,983	28,060

The Company did not have any trade receivables at 31st March, 2006 and 2005.

The fair value of the Group's trade and other receivables, deposits and prepayments at 31st March, 2006 approximated to the corresponding carrying amount.

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

Included in trade and other payables and accrued charges are trade payables of HK$16,389,000 (2005: HK$15,218,000), the aged analysis of which at the balance sheet date is as follows:

	2006	2005
	HK$'000	*HK$'000*
Trade payables		
Up to 90 days	**15,651**	14,617
91 to 180 days	**3**	66
Over 180 days	**735**	535
	16,389	15,218
Other payables and accrued charges	**47,183**	45,007
	63,572	60,225

The Company did not have any trade payables at 31st March, 2006 and 2005.

The fair value of the Group's trade and other payables and accrued charges at 31st March, 2006 approximated to the corresponding carrying amount.

15. **COMPARATIVE FIGURES**

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

FINANCIAL REVIEW

Turnover

For the year ended 31st March, 2006, the turnover of the Group increased from approximately HK$255.7 million to approximately HK$330.2 million, an increase of approximately HK$74.5 million (represents 29%) when compared with last year. The increase was mainly attributed to the increased turnover recorded in the Watch Trading and Retailing business segment amounting to approximately HK$77.7 million which was offset by the decreased turnover recorded from Property-related business segment amounted to approximately HK$2.7 million during the year under review.

Profit for the Year

For the year ended 31st March, 2006, the profit of the Group increased from approximately HK$4.4 million to approximately HK$5.4 million, an increase of approximately HK$1 million when compared with last year. The Group recorded earnings per share of 1.62 Hong Kong cents (2005: 1.31 Hong Kong cents) during the year under review.

However, the profit in 2005 included a net other income amounted to approximately HK$11 million arising mainly from the valuation and its subsequent disposal of property interest in Dongguan and the final receipt of consideration from the disposal of another property interest in Dongguan. The details of the aforesaid non-recurring events have been set out in the annual report for the year ended 31st March, 2005. Pursuant to the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited, the relevant details of the disposal of the former interest have also been disclosed in the Company's Circular dated 7th February, 2005. Had this been excluded, the profit of the Group increased by approximately HK$12 million during the year under review when compared with last year.

Distribution Cost

The Distribution Cost of the Group for the year ended 31st March, 2006 increased by approximately HK$16.5 million to approximately HK$105 million. The increase was mainly due to the increases in salaries and commission, rental expenses and advertising and promotional expenses incurred during the year. They are increased in line with the increased turnover recorded during the year and further fuelled by the escalated operating costs under the great inflationary pressure in China.

Administrative Expenses

The Administrative Expenses of the Group for the year ended 31st March, 2006 decreased by HK$3.7 million from approximately HK$14.5 million to HK$10.8 million when compared with last year. The decrease was mainly due to a net exchange gain recorded during the year under review and the fact that the disposal of the property interest in Dongguan last year led to less administrative expenses incurred from such segment this year. In addition, the Group has adopted numerous cost control measures which have successfully stabilized the administrative expenses throughout the year.

Other (Expenses)/Income, Net

The Other Expenses, Net of the Group for the year ended 31st March, 2006 amounted to approximately HK$1 million. It is mainly comprised of, among other things, the impairment loss recognized in respect of goodwill amounting to approximately HK$1 million. The recognition of the aforesaid impairment loss is in accordance with the Hong Kong Accounting Standards issued by the Hong Kong Institute of Certified Public Accountants. The Other Income, Net of the Group for the last year was mainly arising from the valuation and its subsequent disposal of property interest in Dongguan and the final receipt of consideration from the disposal of another property interest in Dongguan. The details of the aforesaid non-recurring events have been set out in the annual report for the year ended 31st March, 2005. Pursuant to the Rules Governing, The Listing of Securities on The Stock Exchange of Hong Kong Limited, the relevant details of the disposal of the former interest have also been disclosed in the Company's Circular dated 7th February, 2005.

Other Operating Expenses, Net

The Other Operating Expenses, Net of the Group for the year ended 31st March, 2006 increased by approximately HK$6.6 million, from approximately HK$10 million to HK$16.6 million. The increase was mainly due to the increased allowance for slow-moving inventories recorded during the year. The increased allowance is mainly attributable to the increased inventory merchandised so as to meet the increased turnover throughout the year and the depreciation rate for slow-moving inventory is accelerated pursuant to more stringent inventory provision policy adopted during the year under review. The more stringent inventory provision policy in turn reflects the fact that the keen market competition exerts great pressure on the product life cycle, pricing as well as profit margin of those slow-moving inventories distributed through our retail chain.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to maintain a solid financial structure and basically finance its operation from internal financial resources throughout the year. As at 31st March, 2006, the Group maintained a net current asset position of approximately HK$194.1 million (2005: approximately HK$194.6 million) which includes short term bank deposits, bank balances and cash of approximately HK$117.2 million (2005: approximately HK$120.5 million). The liquidity of the Group, as evidenced by the current ratio (current assets/current liabilities) was approximately 4.0 times (2005: approximately 4.2 times), was maintained at a healthy level.

CAPITAL STRUCTURE

Except for the convertible notes issued on 22nd February, 1994 (the "Notes"), the Group is free from any bank borrowings.

As at 31st March, 2006, the Convertible Notes that issued by the Company are still outstanding is amounted to Swiss Francs 11,800,000.

The main terms of the Notes under the original note agreement as amended by the note moratorium on 19th February, 1997 are 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 $1\frac{3}{4}$% per annum to $\frac{7}{8}$% per annum for a period of nine years with effect from 23rd February, 2001.

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 $117\frac{3}{8}$% 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

The People's Bank of China announced on 21st July, 2005 that the exchange rate of United States Dollars against the Renminbi be adjusted to 8.11, translating to a 2% appreciation in Renminbi. Subsequently there is around 1% further appreciation in Renminbi. Income derived by the Group is mainly denominated in Renminbi whilst most of the purchases and expenditures are denominated in Renminbi except for certain purchases and expenditures which are settled in Hong Kong Dollars and Swiss Francs.

The positive impact from Renminbi appreciation was alleviated by the foreign exchange loss resulted from revaluation of the Group's foreign currency balance, which comprised of mainly United States Dollars and Swiss Francs. During the year under review, the exchange rate of Hong Kong Dollars against Swiss Francs is appreciated from 6.5031 to 5.9825, representing a 8% appreciation which had led to an exchange loss amounting to approximately HK$2 million. All in all, the Group recorded net exchange gain of approximately HK$2.6 million for the year ended 31st March, 2006.

The Group's assets are mainly denominated in Hong Kong Dollars, United States Dollars and Renminbi. The Renminbi assets are hedged against 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 the net adverse foreign exchange risk is not significant up to the date of this announcement.

The Board would continue to observe closely the Mainland China's economic reform and development and its fiscal policy regarding revaluation of Renminbi as well as Hong Kong's fiscal policies and implement effective programs to minimize any foreign exchange exposure, if necessary.

CONTINGENT LIABILITIES

At 31st March, 2006, the Company had contingent liabilities as follows:

(1) The Company has given corporate guarantees of HK$11,000,000 (2005: HK$11,000,000) to banks to secure general banking facilities granted to the Group. As at 31st March, 2006, bank guarantees given in lieu of utility deposit amounting to approximately HK$404,000 (2005: HK$404,000).

    Except the aforesaid banking guarantees utilized during the year under review, the unutilized general banking facilities are acted as standby nature for potential business development of the Group's subsidiaries.

(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 and other appropriate declarations or further ancillary reliefs. As the Company is only a nominal defendant to a derivative action (the "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. Pursuant to the Court Order made on 4th January, 2002, the Company is granted a leave to dispense with the filing and service of a defence in relation to the Action. Further to the subsequent Court Orders made on 3rd and 4th September, 2003, the Company successfully denied the Plaintiff's application regarding claiming the Company to indemnify their legal costs incurred in this Action. On 31st March, 2006, the 1st and 2nd defendants consent to the Court upon Galmare's request to bring in Miss Leung Miu King, Marina, who is the sister of the 1st defendant and the non-executive director of the Company, to be the 4th defendant of the case so as to assist the defence. Given such development has no any effect on the role of the Company as nominal defendant and its duty to indemnify the plaintiff's legal costs incurred in this Action, 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 31st March, 2006, certain of the Group's investment properties, leasehold properties and prepaid lease payments with carrying value of HK$1,335,000 (2005: HK$7,700,000), HK$8,451,000 (2005: HK$4,239,000) and HK$5,007,000 (2005: HK$2,792,000) respectively were pledged to secure the general banking facilities to the extent of HK$11 million.

As at 31st March, 2006 and 2005, the Company has not pledged any assets.

OPERATIONAL REVIEW

Watch Trading and Retailing

During the year under review, the aggregated turnover for the watch trading and retailing business segment excluding the Swiss office amounted to approximately HK$325.1 million, representing an increase of 31.2% compared with approximately HK$247.7 million last year.

The segment result for the year recorded a profit amounted to approximately HK$16.5 million (2005: approximately HK$7 million). The result is after the inclusion of an exchange gain amounted to approximately HK$3 million. The positive impact from Renminbi appreciation, which has been resulted upon the appreciation of Renminbi with respect to the accounts payable prior to the appreciation, was however alleviated by foreign exchange loss resulted from revaluation of the Group's foreign currency balances as at 31st March, 2006 which comprised of mainly Swiss Francs and United States Dollars.

During the fiscal year, the PRC economy maintained its strong growth momentum with a year-on-year GDP growth of 9.9%. The PRC government implemented macroeconomic control measures to curb overheat investment in the sectors, aggressively shifting investments in fixed assets to domestic consumption with an aim of stimulating economic growth. Consumer price index (CPI) level of the PRC increased by 1.8% in 2005 from the previous fiscal year. The expedited growth of the PRC economy slowed down to a steady pace, while consumption power of urban and suburban citizens increases along with further economic development and a faster rate of growth of income. National disposal income per capita of urban citizens was RMB10,493. Taking no account of price factors, this represented an effective growth of 9.6%, which was 1.9 percentage points higher when compared with the previous fiscal year.

The increase in aggregated turnover of the segment during the year under review is mainly attributable to the following two folds:

(a) the rising consumerism, expansion of the middle class and strive for elegant and lifestyle; and

(b) the Group's dedicated efforts in enhancing its brand awareness and strengthening customer loyalty as well as efforts to strengthen and centralize the development and management of the Group's own brands.

However, with a combination of rapid economic development, increased consumption power of the residents, expanding middle class population and the anticipated promulgation of policies to stimulate domestic consumption, the PRC retail market exhibited a compelling potential that further attracts a substantial horde of foreign-invested and domestic market players.

Therefore, even though the overall market increases during the year under review, the market is filled with opportunities and challenges.

Under such fierce competition, the escalating operating costs such as rental and salary expenses as well as advertising and promotional expenses in the market pose high pressure and great challenge to all retailers. The focus of retail chain competition in the future will be controlling costs. The Group continues to allocate more resources to improving management and enhancing efficiency.

In addition, the implementation of official regulations by the Chinese authority may cause a slower but more controllable growth. This may in a medium and long term lead to a healthy economic development, It is expected that the effect of the recent introduction of consumption tax of 20% for the luxury watches will be set off partially by the pricing policy of the Brands. However, the Group would closely monitor the overall net effect of such additional tax on the coming sales and bottom line of the segment and revise our business strategies accordingly.

During the year under review, the Group continuously enhances the competitive edges of our retail chain by redecorating the shop image, expanding the shop area and enriching the product assortment.

Moreover, the Group continues to participate the joint co-operative scheme that run by the international brands to provide upgraded quality and value-added services to our customers.

The building up of corporate brand image and consumers' loyalty is an important part of the Group's business policy for increasing its competitive edge.

During the year under review, the Group continued to strengthen the promotion of the Group's own watch brands namely, ACCORD, a Swiss made, fashion and lifestyle brand as well as JUVENIA, a Swiss made, prestigious and elegant brand.

With the continued rapid economic growth, the demand for good quality and affordable pricing watch, where our ACCORD is positioned, is particularly great. During the year under review, the Group incessantly enhanced the quality and diversified the product series of our ACCORD such as the sport model of "Monte Carlo Chronograph" as well as classic and elegant model of "Helvetia Ultra thin", and developed new products of different levels to suit the tastes of different consumers. The marketing and sales team of ACCORD is taking measures to enhancing the shopping environment and merchandising display. The latest image displayed has brought a fresh impression that was well received by consumers. In the long run, this could help to strengthen our brand image and recognition.

In the coming future, the Group continues to make a concerted effort in expanding the sales network of ACCORD, primarily in the PRC market by opening sales and administration office in major cities such as Beijing, Shanghai and Shenyang.

For JUVENIA, a prestigious brand with 146 years of history, the Group has re-launched selected series of our JUVENIA to Hong Kong market during the year under review. The market gave the products an enthusiastic reception, giving it a successful debut with additional assistance of our new marketing concept "Divine Inspiration". In addition, the recent opening of a regional office in Taiwan enables us to capture the first hand knowledge of the local market and facilitates our planning for the future development of Taiwan market, including devising our own branding, product development strategy and network expansion plan.

In order to seek expansion of sales, the Group will strengthen its market research and sales divisions, so as to respond and adjust the sales strategy quickly according to market changes to cope with the rapid development of our target markets.

Properties Investment

Gross rental income generated from properties investment for the year ended 31st March, 2006 amounted to approximately HK$1 million (2005: approximately HK$3.7 million). The decrease in the gross rental income received during the year is because of the fact that the Group has realized its major properties investment in Dongguan last year. The details have been disclosed in the annual report for the year ended 31st March, 2005 and the Company's Circular dated 7th February, 2005.

Swiss Operation

During the year under review, our Swiss Operation recorded less than HK$100,000 minor loss.

With strategic marketing and promotion campaign launched during the year, the overall growth in sales recorded is up in a steady pace in particular those in Asia Pacific region.

Swiss operation will continue to recruit more professionals to further enhance our competitive edge in the keen competition market. It is anticipated that more competitive products of high standard of craftsmanship will be developed and designed through the joint contribution of our market research and product development team.

06' Basel Fair is also a milestone of our recent achievements. Revamped with our new luxury image, both the media and the market gave our new products as well as the booth design an enthusiastic reception.

Looking forward, the Group prepares to invest more resources in the product development, sales and marketing, all aims to better serve our customers and markets and to support the future growth which in turn in line with the interests of the Company and its shareholders.

Programming Service Provider

During the year under review, KBQuest continues to concentrate on offshore application programming services for its Hong Kong and US customers. Meanwhile, KBQuest starts developing software products in addition to providing programming services.

The US IT market has turned around and become active again. However, the outsourcing market is further dominated by Indian companies. The notion of India being the market leader of technology is deeply rooted and is well accepted by US corporations. Our survival is hinged on identifying niche vertical application domains where the Indian companies do not have advantages. In that direction, we have been concentrating on two vertical niche markets, namely, the bio-medical and e-Learning systems. In each of these two spaces, KBQuest has established strong domain expertise and relationships with major corporations and organizations.

The IT market in Hong Kong is also recovering. We are encouraged with recent sales increase. Unfortunately, the cost of conducting business in Hong Kong has been increased rapidly due to the recovery of the property market. In addition, we observe significant staff turnover in the past 6 months. We leverage on the increased productivity of our Shanghai joint venture with the Forward Group who are more active in our programming services and product development.

During the year under review, KBQuest has won two awards namely MAX 2005 Business Experiences Winner Award and MAX 2005 Mobile Experiences (Nokia Symbian OS) Finalist Award from Adobe Systems Incorporated and one award namely LINUX & OSS Best Solution Award from Linuxpilot magazine respectively as a result of the hard work of our staff.

For the year under review, the aggregate segment revenue and result from the programming service amounted to approximately HK$2.1 million (2005: approximately HK$2.6 million) and a loss of approximately HK$2 million (2005: approximately HK$2.4 million). When compared to previous year, the loss is narrowing because of the extra cost saving measures are being implemented by the management throughout the year under review.

KBQuest has maintained to adopt stringent measures to keep the cost down and to improve efficiency.

Looking ahead, KBQuest continues to establish new alliance partnership with companies in the e-Learning and bio-medical markets. In addition, KBQuest has developed numerous software products and ready to launch our marketing campaigns. KBQuest is continuing to explore cooperation with companies to jointly market these products.

EMPLOYEE

As at 31st March, 2006, the Group has around 543 employees about 87.1% of which are working in the PRC, mainly for the watch retailing business. Apart from the frontline colleagues, staffs of different discipline of professionals such as product design, sales and marketing and brand development have been recruited during the year under review so as to cope with the business development. The Group has complied with all the labor laws or regulations in respective jurisdiction. 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 year ended 31st March, 2006 was amounted to approximately HK$40 million (2005: approximately HK$34 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

Looking into 2006, it is expected that the market players esp. the foreign-invested retailers in the PRC retail market will maintain their growth momentum, and the keenest competition will be seen.

During this period of growth, which will be filled with opportunities and competition, the market players will expand in scale and geographical coverage through launch of more flagship shops, mergers and acquisitions and restructuring. Consolidation is the key to the success of acquisition and mergers. As competition intensifies, more emphasis will be attached to the optimization of outlet network and consolidation of underperformance shops, which will be a trend in the development.

In order to maintain a competitive advantage amid the keen competition, the Group believes that it is important to cultivate strong brand loyalty and recognition of our retail chain and own brand products. The Group will continue to implement a series of strategies such as advertising, renovating the shops, joint co-operative programs with international brands and participating in the international brands' public functions so as to promote the corporate image of the retail chain.

The Group will continue to build upon and modify the position of our own brands JUVENIA and ACCORD within the PRC market and will cautiously seek opportunities to expand to other countries in the Asia Pacific region. The Group will seek to strengthen the JUVENIA and ACCORD brand in the PRC market through a number of initiatives including the updating more image displays, the expansion of our talented design team and the after-sale services team, and the continuation of advertising and promotional activities.

Having considered the outcome of pilot launch of certain jewellery brands in our retail chain and the recent introduction of consumption tax for jewellery, the Group would reconsider the strategies and concepts of promoting jewellery products in the PRC market. It is advisable that a smaller scale of jewellery products will be introduced in our retail chain.

The Group acknowledges that quality of services is crucial to the success of the Group. The Group will continue to implement a series of training programs including in-house training and joint training programs with international brands to improve the standard of services and product knowledge of the frontline teams of the retail chain.

The Group recognizes the importance of implementation of a tailor-made integrated system for inventory control and management information. The Group will continue to update the system so as to enable the management of the Group to respond to the changing market demand promptly and maintain an appropriate level and variety of inventory at each outlet, aiming at improving the overall operational efficiency.

Despite the great threats of the escalating operating costs and the keen competition, the mega trends of the resumption of the domestic spending in the Mainland China remain steady on course. The Group will cautiously review the expansion pace and consolidation scheme of the existing retail shops and tighten cost controls aiming at achieving steady business growth in the retail market.

Looking forward, the Group will continue to focus on our core business i.e. Watch Trading and Retailing. It also focuses on brand building, which is believed to bring positive development and benefits to the Group in the long run.

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 year.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31st March, 2006, except for the following deviations:

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The 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. As such the Company considers that sufficient measures have been taken to ensure the Company's corporate governance practices are no less exacting than those in the Code. To enhance good corporate governance, all the non-executive directors of the Company will enter into service agreements with the Company for a specific term of two years within the coming year.

Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. However, according to the private act of the Company enacted in 1989, no director holding office as Chairman or Managing Director shall be subject to retirement by rotation as provided in the Company's Bye-Laws. To enhance good corporate governance, Mr. Leung Chung Ping, Owen, Chairman of the Company has confirmed to the Board on 28th June, 2006 that he will voluntarily retire from his directorship at forthcoming annual general meeting of the Company in order for the Company to comply with the Code, provided that being eligible for re-election, he may offer himself for re-election at the annual general meeting.

COMPLIANCE OF THE MODEL CODE FOR DIRECTORS' SHARE DEALING

All directors have confirmed that they complied with the required standards set out in the Model Code for Directors' Share Dealing as set out in Appendix 10 to the Listing Rules throughout the year.

PUBLICATION OF ANNUAL REPORT ON THE EXCHANGE'S WEBSITE

The Company's annual report containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Rules Governing The Listing of Securities on the Exchange will be published on the Exchange's website in due course.

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
Managing Director

Hong Kong, 18th July, 2006

As at the date of this announcement, the Board comprises Mr. Leung Chung Ping, Owen and 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 H. Miu as independent non-executive directors.

Website: www.asiacommercialholdings.com

* *For identification purposes only*

Please also refer to the published version of this announcement in The Standard.