



ASIA COMMERCIAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 104)

ANNOUNCEMENT OF AUDITED RESULTS FOR THE YEAR ENDED 31ST MARCH 2004

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, 2004 as follows:

Consolidated Income Statement

	Notes	2004 HK\$'000	2003 HK\$'000
TURNOVER	2	261,477	245,596
COST OF SALES		<u>(165,789)</u>	<u>(169,600)</u>
GROSS PROFIT		95,688	75,996
OTHER REVENUE	2	9,515	8,432
DISTRIBUTION COSTS		(73,101)	(67,543)
ADMINISTRATIVE EXPENSES		(15,566)	(14,347)
OTHER OPERATING EXPENSES, NET	4	<u>(21,128)</u>	<u>(8,987)</u>
LOSS FROM OPERATIONS		(4,592)	(6,449)
FINANCE COSTS	5	(1,362)	(1,352)
OTHER INCOME (EXPENSES), NET	6	38,969	(27,050)
SHARE OF RESULTS OF AN ASSOCIATE		(606)	(782)
PROFIT (LOSS) BEFORE TAXATION	7	32,409	(35,633)
TAXATION	8	<u>(250)</u>	<u>(240)</u>
PROFIT (LOSS) AFTER TAXATION		32,159	(35,873)
MINORITY INTERESTS		<u>584</u>	<u>3,580</u>
NET PROFIT (LOSS) FOR THE YEAR		32,743	(32,293)
ACCUMULATED LOSSES BROUGHT FORWARD		(369,148)	(336,868)
EXCESS DEPRECIATION ON REVALUED PROPERTIES		<u>13</u>	<u>13</u>
ACCUMULATED LOSSES CARRIED FORWARD		<u>(336,392)</u>	<u>(369,148)</u>
DIVIDEND	9	<u>—</u>	<u>—</u>
EARNING (LOSS) PER SHARE	10		
INCLUDING THE RECEIPT OF FURTHER CONSIDERATION FROM THE DISPOSAL OF LAKEVIEW PROJECT: BASIC		<u>9.81 cents</u>	<u>(9.68 cents)</u>
EXCLUDING THE RECEIPT OF FURTHER CONSIDERATION FROM THE DISPOSAL OF LAKEVIEW PROJECT: BASIC		<u>(4.38 cents)</u>	<u>(9.68 cents)</u>

Asia Commercial Holdings Limited

Notes to this announcement

1. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICY

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAPs") and Interpretations approved by the HKSA:

SSAP 12 (Revised) Income Taxes

Income Taxes

In the current year, the Group has adopted SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognized in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit with limited exceptions.

The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods and, accordingly, no prior period adjustment is required.

2. TURNOVER AND OTHER REVENUE

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

	2004 HK\$'000	2003 HK\$'000
Turnover		
Sales of watches	245,489	213,630
Rental income		
Investment properties	3,835	4,443
Others	772	615
	4,607	5,058
Investment securities	7,960	21,980
Programming service	3,421	4,928
	<u>261,477</u>	<u>245,596</u>
Other revenue		
Interest income from other than short-term bank deposits	93	331
Interest income from short-term bank deposits	533	626
Customers service income and others	8,036	7,475
Profit on disposal of property held for resale	853	-
	<u>9,515</u>	<u>8,432</u>
	<u><u>270,992</u></u>	<u><u>254,028</u></u>

3. SEGMENT INFORMATION

The turnover and contribution to operating loss of the Group for the year ended 31st March, 2004 analyzed by business segments and by geographical segments are as follows:

i) Business segment

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

	Year ended 31st March, 2004						
	Sales of watches HK\$'000	Property-related business HK\$'000	Investment securities HK\$'000	Programming service HK\$'000	Corporate HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Segment revenue							
- External sales	245,489	4,607	7,960	3,421	-	-	261,477
- Inter-segment sales	-	-	-	974	-	(974)	-
	<u>245,489</u>	<u>4,607</u>	<u>7,960</u>	<u>4,395</u>	<u>-</u>	<u>(974)</u>	<u>261,477</u>
Segment results	(543)	3,050	2,185	(2,074)	(7,210)	-	(4,592)
Finance costs							(1,362)
Other income (expenses), net	(80)	47,361	-	(57)	(8,255)	-	38,969
Share of results of an associate	-	-	-	(606)	-	-	(606)
Profit before taxation							32,409
Taxation							(250)
Profit after taxation							32,159
Minority interests							584
Net profit for the year							<u><u>32,743</u></u>

Asia Commercial Holdings Limited

i) Business segment (continued)

	Year ended 31st March, 2003						Consolidated HK\$'000
	Sales of watches HK\$'000	Property- related business HK\$'000	Investment securities HK\$'000	Programming service HK\$'000	Corporate HK\$'000	Elimination HK\$'000	
Segment revenue							
– External sales	213,630	5,058	21,980	4,928	–	–	245,596
– Inter-segment sales	–	135	–	36	–	(171)	–
	<u>213,630</u>	<u>5,193</u>	<u>21,980</u>	<u>4,964</u>	<u>–</u>	<u>(171)</u>	<u>245,596</u>
Segment results	<u>(3,884)</u>	<u>3,805</u>	<u>(469)</u>	<u>(6,022)</u>	<u>121</u>	<u>–</u>	<u>(6,449)</u>
Finance costs							(1,352)
Other expenses	(55)	–	–	(30)	(26,965)	–	(27,050)
Share of results of an associate	–	–	–	(782)	–	–	(782)
Loss before taxation							(35,633)
Taxation							(240)
Loss after taxation							(35,873)
Minority interests							3,580
Net loss for the year							<u>(32,293)</u>

ii) Geographical segment

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

	Year ended 31st March, 2003			
	2004	Contribution to operating loss	2003	Contribution to operating loss
	Segment revenue HK\$'000	HK\$'000	Segment revenue HK\$'000	HK\$'000
The Mainland China, excluding Hong Kong	246,138	2,715	233,751	16
Hong Kong	4,457	(8,143)	3,274	(3,413)
Others	10,882	836	8,571	(3,052)
	<u>261,477</u>		<u>245,596</u>	
Loss from operations		<u>(4,592)</u>		<u>(6,449)</u>

4. OTHER OPERATING EXPENSES, NET

	2004 HK\$'000	2003 HK\$'000
Provision for bad and doubtful debts	1,337	3,944
Provision for diminution in value of properties held for resale	297	454
Provision for slow-moving inventories	19,702	8,685
Net unrealized loss on revaluation of investments in securities	–	873
Written back of provision for bad and doubtful debts	–	(59)
Written back of trade and other payables	(208)	(4,910)
	<u>21,128</u>	<u>8,987</u>

5. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest payable on:		
Bank loans and overdrafts wholly repayable within five years	11	1
Convertible notes	379	379
	<u>390</u>	<u>380</u>
Convertible notes:		
Amortization of premium on redemption	972	972
Total borrowing costs	<u>1,362</u>	<u>1,352</u>

6. OTHER INCOME (EXPENSES), NET

	2004 HK\$'000	2003 HK\$'000
Impairment loss recognized in respect of investment securities	–	(2,285)
Impairment loss recognized in respect of goodwill	(7,449)	(20,977)
Write off of fixed assets	(108)	(55)
Amortization of goodwill	(849)	(1,821)
Exchange reserve transferred to income statement upon liquidation of a subsidiary	–	(1,912)
Profit on liquidation of a subsidiary	14	–
Receipt of further consideration from the disposal of Lakeview Project	47,361	–
	<u>38,969</u>	<u>(27,050)</u>

Asia Commercial Holdings Limited

7. PROFIT (LOSS) BEFORE TAXATION

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Crediting:		
Gross gain on sale of investments in securities – other investments	2,166	649
Profit on disposal of property held for resale	853	–
Dividend from listed securities	<u>48</u>	<u>30</u>
Charging:		
Depreciation on owned fixed assets	4,096	4,086
Amortization on		
Goodwill	849	1,821
Computer software	–	70
Impairment loss recognized in respect of investment securities	–	2,285
Impairment loss recognized in respect of goodwill	7,449	20,977
Cost of inventories recognized as expenses	<u>180,306</u>	<u>179,571</u>

8. TAXATION

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Current:		
Hong Kong	–	–
Outside Hong Kong	<u>250</u>	<u>240</u>
	<u>250</u>	<u>240</u>

Hong Kong Profits Tax is calculated at a rate of 17.5% (2003: 16%) of the estimated assessable profit for the year. In June 2003, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the year of assessment 2003/04. 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.

9. DIVIDEND

The Directors do not recommend the payment of a dividend for the year ended 31st March, 2004 (2003: Nil).

10. EARNINGS (LOSS) PER SHARE

(a) Including the receipt of further consideration from the disposal of Lakeview Project:

The calculation of the basic earnings (loss) per share for the year ended 31st March, 2004 and 2003 is computed based on the following data:

	2004	2003
Earnings (loss)		
Earnings (loss) for the purpose of basic earnings (loss) per share	<u>HK\$32,743,000</u>	<u>(HK\$32,293,000)</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	<u>333,719,516</u>	<u>333,719,516</u>

(b) Excluding the receipt of further consideration from the disposal of the Lakeview Project:

The calculation of the additional basic loss per share for the year ended 31st March, 2004 and 2003 is computed based on following data:

	2004 <i>HK\$</i>	2003 <i>HK\$</i>
Earnings (loss)		
Net profit (loss) for the year	32,743,000	<u>(32,293,000)</u>
Adjustment for:		
Receipt of further consideration from the disposal of the Lakeview Project	<u>(47,361,000)</u>	
Loss for the purpose of basic loss per share excluding the receipt of further consideration from the disposal of the Lakeview Project	<u>(14,618,000)</u>	

Number of shares

Same as those details above for basic earnings (loss) per share.

The additional basic loss per share figure is disclosed to give a clearer indication of the underlying performance of the Group.

(c) No disclosure of the diluted earnings per share and additional diluted loss per share for the year under review with comparative diluted loss per share and additional diluted loss per share for the previous year is shown as the issue of potential ordinary shares during both years from the exercise of the outstanding share options and convertible notes will be anti-dilutive.

Asia Commercial Holdings Limited

11. RESERVES

	Share premium HK\$'000	Investment property revaluation reserve HK\$'000	Other property revaluation reserve HK\$'000	Currency translation reserve HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1st April 2003	84	2,256	570	4,253	156,970	(369,148)	(205,015)
Surplus arising from valuation of investment properties	-	210	-	-	-	-	210
Excess depreciation on revalued properties	-	-	(13)	-	-	13	-
Exchange differences arising from translation of financial statements of operation outside Hong Kong	-	-	-	613	-	-	613
Profit for the year	-	-	-	-	-	32,743	32,743
Balance at 31st March 2004	<u>84</u>	<u>2,466</u>	<u>557</u>	<u>4,866</u>	<u>156,970</u>	<u>(336,302)</u>	<u>(171,449)</u>

12. COMPARATIVE FIGURES

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

FINANCIAL REVIEW

For the year ended 31st March, 2004 the Group reported a turnover from continuing operation of approximately HK\$261 million. The Group's turnover was contributed from various business segments as below:

- Revenue from sale of watches was approximately HK\$245 million. This was an increase of approximately 15% (HK\$32 million) when compared with the previous year;
- Revenue from property-related business was approximately HK\$4.6 million. This was roughly the same level as the previous year;
- External revenue from programming service was approximately HK\$3 million. This was a decrease of approximately 31% (HK\$1.5 million) when compared with the previous year;
- Revenue from investment securities was approximately HK\$8 million (2003: approximately HK\$22 million). In the previous year, the Group had redeemed certain debt securities upon maturity and realized a gain of approximately HK\$0.6 million. During the year under review, the Group had grasped the favourable market sentiment to realize the entire investment portfolio and reported a profit of approximately HK\$2 million. It is the Board's policy that the Group adopts a prudent investment policy in which risk and opportunities are to be well balanced. During the year under review, the Group engaged only in the trading of marketable securities in order to achieve a higher return from its surplus cash resources on hand.

For the year ended 31st March, 2004, the profit attributable to shareholders amounted to approximately HK\$33 million and the basic earnings per share was HK\$9.81 cents. The result was largely attributable to the receipt of the partial payment under the disposal of the Lakeview Project amounting to approximately HK\$47 million on 25th August, 2003. The details of such transaction have been disclosed in the press announcement dated 25th August, 2003. The receipt has been accounted for as a gain in this financial year. The short-term bank deposits and the shareholders' funds were increased by the same amount accordingly.

Not taking into account of the aforesaid receipt, the loss attributable to shareholders for the year ended 31st March, 2004 was amounted to approximately HK\$14 million (2003: loss attributable to shareholders of approximately HK\$32 million) and the additional basic loss per share for the year under review was HK4.38 cents (2003: additional basic loss per share of HK9.68 cents).

In arriving the Net Profit for the year, the following items have been taken into account and properly dealt with:

- Pursuant to the prevailing international accounting standards and after taking into account of, among other things, the prevailing market conditions, global economic uncertainties and an independent valuation prepared by a professional valuer, there was a recognition of an impairment of goodwill of approximately HK\$7 million (2003: HK\$21 million) so as to furnish a prudent position of such investment to our Shareholders. Such impairment has no impact on the operations, cash flows, business development as well as revenue of both the information technology business and the Group.
- Pursuant to the Company's internal regular inventory management policy, there was approximately HK\$20 million (2003: approximately HK\$9 million) general and specific provision of inventories provided under the heading of "Other Operating Expenses, Net".

General provision provided against the inventory as at 31st March, 2004 in accordance with the consistent stringent aging stock policy amounted to approximately HK\$13 million (2003: approximately HK\$9 million). The increase is mainly due to the increases in the merchandises so as to cope with the increases in the business turnover;

Specific provision provided against our own branded JUVENIA amounted to HK\$7 million (2003: HK\$Nil). During the year under review, our management has mapped out a clearer market niche and position for JUVENIA in the Asian market. There was a once-for-all measure to write-down the entire obsolete models, which were not in line with the new market image and position of JUVENIA. The fine tune and re-alignment of the inventory assortments are positive and normal measures in order to meet the coming business development. It is expected that such specific provision will take place on a non-recurring basis and new marketing strategy of JUVENIA will be more easily conducted after such inventory re-alignment.

These provisions have no impact on the Group's cash flow. The utilization rate of the capital in inventory by the Group, as evidenced by the inventory turnover ratio was approximately 2.0 times (2003: 1.9 times) was maintained at a sound level under the prevailing market practice.

Asia Commercial Holdings Limited

LIQUIDITY AND FINANCIAL RESOURCES

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

As at 31st March, 2004, the Group maintained a net current asset position of approximately HK\$181 million (2003: approximately HK\$136 million) which includes short-term bank deposits, bank balances and cash of approximately HK\$118 million (2003: approximately HK\$68 million). The increase of short-term bank deposits, bank balances and cash are mainly attributed to the receipt of the further consideration under the disposal of the Lakeview Project and the realization of the investment portfolio during the year.

The liquidity of the Group, as evidenced by the current ratio (current assets/current liabilities) was approximately 4.4 times (2003: approximately 3.6 times), was maintained at a healthy level.

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

CAPITAL STRUCTURE

The net shareholders' equity of the Group is approximately HK\$162 million (2003: approximately HK\$129 million). The Group is free from any bank borrowings except for the convertible notes issued on 22nd February, 1994 (the "Notes").

CONVERTIBLE NOTE

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

i. Note moratorium

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

- The maturity date of the Notes was extended for a period of 10 years after their contractual maturity from 23rd February, 2000 to 23rd February, 2010;
- Interest on the Notes would be waived for a period of five years with effect from 23rd February, 1996 to and including 22nd February, 2001; and
- The rate at which interest is charged on the Notes would be reduced from 1 3/4% per annum to 7/8% per annum for a period of nine years with effect from 23rd February, 2001.

ii. Note exchange

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

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

RISK OF FOREIGN EXCHANGE FLUCTUATION

Apart from the Swiss operation, the sales, purchases and operating expenditure of the Group are mainly denominated in Renminbi. The Swiss operation accounts for less than 5.3% of the Group's total activities. The Group's assets employed are mainly denominated in Hong Kong dollars, United States dollars and Renminbi. The Renminbi assets are hedged against the Renminbi liabilities in the ordinary course of operating cycle. Since the Hong Kong dollars is pegged to the United States dollars, the Group considers that its foreign exchange risk is not significant up to the date of this announcement. During the year under review, there is expectation of Renminbi appreciation. In the first half of the year, the US government triggered a worldwide pressure on the issue of revaluation of Renminbi so as to cope with the pressure to protect American jobs in the run-up to the coming presidential election. Recently, many surveys indicate that the Federal Reserve ("Fed") tends to further raise US interest rate in the near future as it moves to beat off emerging inflation. Since China has a pegged exchange rate regime, it has a high inclination to follow Fed in its interest rate policy. Given China is sitting on a massive amount of speculative capital that came on the expectation of Renminbi appreciation.

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

Asia Commercial Holdings Limited

RECEIPT OF FURTHER CONSIDERATION FROM THE DISPOSAL OF LAKEVIEW PROJECT

On 23rd August, 1999, the Group 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 various supplemental agreements, the aggregate consideration was HK\$157 million and was treated as revenue and the balance of the consideration, HK\$76.5 million was recognized as receivable in the year ended 31st March, 2000. Payment for this receivable would be made gradually from time to time according to the time schedule of the obtaining of the land use rights certificates. The details of the Disposal are set out in the Company's circulars dated 14th December, 1998 and 23rd August, 1999.

The HK\$76.5 million of receivable remained outstanding as at 31st March, 2002. With a view of adopting the Statement of Standard Accounting Practice 28 "Provisions, Contingent Liabilities and Contingent Assets", governing financial statements relating to periods beginning on or after 1st January, 2001, such receivable was reversed and treated as contingent asset and disclosed in the financial statements accordingly.

However, as at 25th August, 2005, the Purchasers paid an amount of approximately HK\$47 million to the Company because they had obtained the land use right certificates in respect of Phases 7 to 10 of the Lakeview Project. The receipt has been accounted for as other income in the income statement. The short-term bank deposits and the shareholders' funds were increased by the same amount accordingly.

As stated in the aforesaid paragraphs, the receipt of the remaining balance of the aggregate consideration is on a gradual basis, i.e. to recognize and treat as other income in the financial statements from time to time as further land use right certificates are granted. The Company would monitor the status of the issuance of such land use right certificates and make further announcement when there is material progress.

CONTINGENT LIABILITIES

As at 31st March, 2004, the Company had contingent liabilities as follows:

- (1) The Company has given corporate guarantees of HK\$11 million (2003: HK\$11 million) to banks to secure general banking facilities granted to the Group. As at 31st March, 2004, banking guarantees given in lieu of utility deposit amounting to approximately HK\$0.4 million (2003: Nil). Except the aforesaid banking guarantees utilized during the year under review, the facilities, which are solely acted as standby nature for any business development of the Group's subsidiaries, have remained intact for the past several years. It was mainly due to the fact that the Group has surplus cash reserve on hand throughout years.
- (2) The Company is a nominal defendant of a derivative action brought by Galmare Investment Limited ("Galmare") with 2 Executive Directors on 27th April, 2001, suing on behalf of itself and all other shareholders, other than the Executive Directors. Galmare is seeking a declaration that the acquisition of the information technology business in May 2001 is not in the best interests of the Company or the Shareholders, a declaration that the above Executive Directors are precluded from regarding the conditions precedent to completion from having been complied with, damages against the Executive Directors and other appropriate declarations or further ancillary reliefs. As the Company is only joined as a party to these proceedings as a nominal defendant to a derivative action, the role of the Company is limited i.e. not to take any active role in the proceedings and any damages recovered in such Action are paid to the Company directly. Further to the Court Order made on 4th January, 2002 that the Company is granted a leave to dispense with the filing and service of a defence in relation to the Action, pursuant to the subsequent Court Orders made on 3rd and 4th September, 2003, the ultimate result was that the Company successfully denied the Plaintiff's application regarding claiming the Company to indemnify their legal costs incurred in this Action. Accordingly, the Board does not anticipate any significant adverse financial effect to the Company up to the date of this announcement.

The Board shall inform the shareholders by press announcement, should there be any significant progress or major development in the litigation, which affects the interests of the shareholders in due course.

Save as disclosed herein, so far as the Directors are aware, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration or claims which is, in the opinion of the Directors, of material importance and no litigation or claims which is, in the opinion of the Directors, of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

PLEDGE OF ASSETS

As at 31st March, 2004, certain of the Group's investment properties and leasehold properties with carrying value of approximately HK\$7 million (2003: approximately HK\$13 million) and HK\$7.4 million (2003: approximately HK\$1.5 million) respectively were pledged to secure the general banking facilities to the extent of HK\$11 million.

As at 31st March, 2004 and 2003, the Company had not pledged any assets.

OPERATIONAL REVIEW

Watch Trading and Retailing

During the year under review, Gross Domestic Product ("GDP") in the PRC rose 9.1% from that in 2003 despite the Severe Acute Respiratory Syndrome ("SARS") outbreak. Due to effective measures implemented by relevant PRC authorities for the control of SARS, the PRC economy revived and promptly regained its momentum. The disposable income per capita of urban residents in the PRC amounted to approximately RMB8,472, a year-on-year increase of approximately 9.0%. Net income per capita of rural residents was approximately RMB2,622, a year-on-year increase of approximately 4.3%. The stable development in the state economy and a sustainable and prosperous retail industry contributed to a favourable environment for retail chain enterprises in the PRC.

The aggregate turnover from the retail sales of watches excluding the Swiss office during the year under review amounted to approximately HK\$243 million, representing an increase of 16% compared with approximately HK\$210 million for the previous year. The overall retail turnover increase was a reflection of the continued growth in average annual household income in urbanized PRC cities where TIME CITY, our proven result retail chain, principally locates its retail outlets, and the increased ability and willingness of these households to purchase watches.

Asia Commercial Holdings Limited

During the year under review, this segment recorded only a minor profit amounting to approximately HK\$1 million (2003: loss of approximately HK\$4 million).

The following factors are attributed to this result:

The Group incurred higher costs in advertising and promotions amounting to approximately HK\$3 million when comparing with the previous year as we tried to enhance our own brands and their profile. These costs, while important to the Group's long term growth, affects our bottom line during the year.

Due to the Company's internal prudent accounting method, the aggregate amount of the general and specific provision of inventories amounting to approximately HK\$20 million had been provided to the income statement. The details of the general and specific provision of inventories provided are disclosed under the Heading "Financial Review". Such provisions have no impact on the Group's cash flow. The Group's inventory turnover ratio was maintained at a sound level under the prevailing market practice.

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

It is the Board's policy to maintain and develop the high-performance retail chain in the market by continued reviewing and monitoring the cash flow and profitability of each outlet. Those under-performance outlets have been closed and the resources released have been then reallocated to other outlets;

TIME CITY has adopted flagship shops concept as one of the business policies in the Mainland China during the year under review while the on-going shop portfolio enhancement program ensure that TIME CITY's image is the most prominent figure in the high end watch retail business. Flagship shops replace smaller format shops. These flagship shops allow customers to browse through a wide variety of products under one roof;

The Company had issued bi-monthly magazine namely "City Life" during the year under review. It was an effective marketing tool to promote the brand image of our retail chain i.e. TIME CITY and those commodities that display and sale in our TIME CITY chain;

In order to offer wider choices to our customers whilst keeping the balanced investment in the inventories, perpetual inventory review system has been adopted through our computerized management information system. It is TIME CITY's business model to offer an attractive assortment of the merchandise to meet the customers' total satisfaction;

It is the Board's policy to keep improving its quality of repair and maintenance services including the free of charges after-sales services for a fixed warranty period. The delivery of high quality repair and maintenance services enhances customers' loyalty to our retail chain.

Securities Investment

Following a bearish 2002, the stock market remained listless in 2003 until the third quarter. The market sentiment has become more favourable with signs of restoration of consumer confidence, soaring properties market in US, the continued export-led recovery in the Asian countries and improvement in unemployment rate. The Group had grasped such opportunity to realize entire investment portfolio at proceedings amounting to approximately HK\$8 million and to report a profit of approximately HK\$2 million during the year under review. It is the Board's policy to apply the surplus funding to invest in securities investment with an aim to diversify the financial risks and gain a higher return to the Group. Pursuant to such policy, the Group does not involve in any high-risk margin trading.

Properties Investment

Gross rental income generated from properties investment for the year ended 31st March, 2004 amounted to approximately HK\$4.6 million (2003: approximately HK\$5.0 million). The minor decrease in the gross rental income is due to the fact that the Group had moved its principal office into one of the properties investment around the third quarter so as to take the advantage of rental differential over the different districts. It is 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 major tenants, it is the Board's policy to lease out the properties investment in medium term.

Swiss Operation

During the year ended 31st March 2004, our Swiss office recorded a loss amounted to approximately HK\$1.6 million. During the year under review, not only did we improve our products and overall management, but also mapped out a very clear direction to position ourselves in the market i.e. to reinstate the brand image of JUVENIA as a symbol of elegance and taste. With JUVENIA's exquisite image, coupled with our competitive edges of retail chain in the PRC, which in turn providing close and regular contacts with its ultimate customers and gathering market intelligence including the sales pattern of new models and feedback from customers, we are confident in capturing and expanding our market share in the Mainland China in the near future. Apart from the market in the Mainland China, we will also exploit the Middle East and Far East markets as our strategic primary market expansion in the future.

It is the Company's long term mission to exploit the full potential of its value of JUVENIA and bring the long term benefits to the Company and its shareholders.

Programming Service Provider

According to the pre-determined prudence strategy, the Company had adopted a stringent measures to reduce the operating costs including voluntary salary cut of the senior management, recruiting contract programmers instead of permanent programmers, remove the office premise away from prime location and sharing the administration and overhead costs with other group companies during the year under review so as to enhance the business efficiency. However, all of the efforts are bitterly hit by the SARS outbreak, the Iraq war and a series of terror attacks, which in turn hampered fiercely the revenue of our programming service. For the year ended 31st March, 2004, the aggregate segment revenue and result from the programming service amounted to approximately HK\$3 million and loss of approximately HK\$2 million respectively. Amid the simmering tensions between the US and China regarding the trade deficit of US, the issue of Renminbi appreciation and the cross-strait relationship after the Taiwan's presidential selection, the motive of US Information Technology ("I.T.") customers to outsource their I.T. tasks to the China-based programming companies remained weak. This is particularly discouraging to our business model.

Asia Commercial Holdings Limited

Consistent with the true and fair accounting principles, the Group had recognized an impairment for goodwill in respect of our interest in the Programming Service Provider of approximately HK\$7 million, after taking into account of, among other things, the prevailing market conditions, global economic uncertainties and an independent valuation prepared by a professional valuer, so as to furnish a prudent position of such investment to our shareholders as at 31st March, 2004. Such impairment has no impact on the operations and cash flows of the programming service business and the Group.

Employee

As at 31st March, 2004, the Group has around 500 employees about 91.2% of which are working in the PRC, mainly for the watch retailing business. Apart from the frontline colleagues, staff of different discipline of professionals such as product design, sales and marketing and brand development have been recruited during the year under review so as to cope with the business development. The Group has, in accordance with applicable laws, established pension funds in the PRC. Total staff costs, including commission but excluding Directors' emoluments for the year ended 31st March, 2004 was amounted to approximately HK\$29 million (2003: approximately HK\$27million). In order to maintain the Group's staff cost at a competitive level, the Group reviews remuneration packages including commission scheme from time to time and normally on yearly basis. Besides salary payments, other staff benefits including contributions to Mandatory Provident Fund, medical insurance, a discretionary bonus scheme and share option scheme, the Group also facilitates continuing education of staff in recognized associations.

The Board regards the human resources as invaluable asset for the Group's current achievement and future development. It is the Group's human resources policy to provide equal opportunity and high motivation to all its employees.

PROSPECTS

Watch Trading and Retailing

According to the figures released by the National Bureau of Statistics, the industrial output continued to rise, hitting RMB431 billion in May 2004. The pace of growth in industrial output has slowed which itself indicating that measures to cool the overheating economy are taking effect, at 17.5% year-on-year rise. With the GDP per capita reaching US\$1,090 as announced by the National Bureau of Statistics, the overall market trend on the Chinese Mainland is moving towards a "broad-based economic development combined with rising consumption". The rising consumerism, expansion of the middle class and the strive for elegant and lifestyle has created a booming market in the Mainland China.

However, the competition of the domestic retail market in the PRC has been very fierce on the other hand.

With the signing of The Closer Economic Partnership Arrangement on 30th June 2003, the barrier to enter into the Mainland market is significant lowered. The existing fierce competition is further fuelled.

Furthermore, the new entrants do pose immediate threats as the scramble for experienced frontline staff and shops at prime locations implies that salaries, staff benefits and retail rental prices will rise accordingly. The escalated operating costs with added fuel from the great inflationary pressure in China, will then put great pressure on the operating productivity and lead to squeezed margin.

With the visa relaxation for frequent individual travellers to Hong Kong from major cities on the Chinese Mainland, TIME CITY like other Mainland retailers faces the direct competition with Hong Kong counter players. According to The Hong Kong Tourism Board, 1.7 million people visited Hong Kong in April 2004, 330,000 more than before in the same month. With the proposed addition of Liaoning, Jilin and Heilongjiang to the solo traveller scheme, urban residents of most of China's coastal provinces would be eligible to come to Hong Kong. Other recent news released that luxury goods purchases in Hong Kong in April, 2004 are up 71% on a year ago and sales of products favoured by Mainland visitors such as jewellery, watches, clocks and gifts, increased 71.4%.

The infringement of our brand name "TIME CITY" in many provinces by various sole proprietors caused direct damage to our retail business. In order to lower their barriers of entry to the retail business, some local competitors imitate our logo and shop decoration so as to increase their market shares. Though it is a long and winding way before an effective regulatory protection in the Mainland regarding the intellectual property right to be mapped out and put into practice, we have taken necessary measures including legal action, to protect the Company's right in the due course. TIME CITY also relied on its customer service to differentiate itself from those forgery shops.

Facing such tough challenging business environment, in order to secure and further enhance our market positioning, the Group based on customer-focused strategy strives to do better and better as below:

The Group will continue to expand the flagship shops concept and on-going shop portfolio enhancement program in the Mainland China during the coming years. These flagship shops allow customers to browse through a wide variety of products under one roof and the on-going shop portfolio enhancement program will ensure that TIME CITY's image is the most prominent figure in the high end watch retail business.

The Group takes tailor-made measures to enhance the shopping environment and merchandising display. The latest shop image displayed has brought a fresh look that was well received by consumers. In the long run, this could help to strengthen our brand image and induce customers to purchase from the Group repeatedly.

Besides, the Group also puts emphasis on our partners. Good relationships with departmental store chains will establish to further energize TIME CITY's regional expansions. Furthermore, TIME CITY formulates promotion strategies and collaborates with the Group's suppliers and customers on the formulation and/or implementation of promotion plans and the release of new products.

It is the Company's strategy to apply advanced management information system so as to keep improving the operation efficiency of our retail operation. Upon the refinement of the information technology platform in 2004, all outlets can access their respective real time sales figures and inventory levels. With proper data mining, management can better understand customers' buying patterns which in turn not only helping our sales team to respond more rapidly to changes in customers' preferences, but also providing TIME CITY to strengthen inventory management.

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

To keep the momentum of profit growth, the Group will pursue ways at a cautious but proactive manner, to extend our business horizontally and vertically, to create synergy between different business segments, to maximize the return by introducing more value-added services, and to utilize resources effectively as much as possible. One of the long-term business developments was the

Asia Commercial Holdings Limited

moderate expansion and development of our own brands, ACCORD and JUVENIA.

The Company will allocate more resources in brand promotion, which will form the synergy with our retail business.

Programming Service Provider

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

Other Matter

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

CODE OF BEST PRACTICE

During the year under review, in the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the non-executive director and independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Bye-laws.

EXPRESSION OF GRATITUDE

The Board would like to take this opportunity to express its profound gratitude to all staff members, shareholders, bankers, customers, suppliers and professional bodies for the sincere support they have rendered the Group to date.

PUBLICATION OF DETAILED ANNUAL RESULTS ON THE STOCK EXCHANGE OF HONG KONG LIMITED'S WEBSITE

All the information of the annual results of the Group for the year ended 31st March, 2004 required by paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

By Order of the Board
LAI Kwok Hung, Alex
Company Secretary

Hong Kong, 23rd July, 2004

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

Please also refer to the published version of this announcement in The Standard dated 26 July 2004.