

## 2007 INTERIM REPORT



**ASIA COMMERCIAL HOLDINGS LIMITED**  
**(Incorporated in Bermuda with limited liability)**  
**(Stock Code:104)**

The Board of Directors (the "Board") of Asia Commercial Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim report of the Company and its subsidiaries (the "Group") for the six months ended 30th September 2007 together with the comparative figures of the last corresponding period. The interim financial report has been reviewed by the Company's Audit Committee.

### Condensed Consolidated Income Statement

For the six months ended 30th September 2007

		<b>Six months ended</b>	
		<b>30th September</b>	
	Notes	<b>2007</b>	2006
		<b>HK\$'000</b>	HK\$'000
		<b>(unaudited)</b>	(unaudited) (restated)
<b>Turnover</b>	5	<b>199,865</b>	156,472
Cost of sales		<u><b>(124,394)</b></u>	<u>(100,636)</u>
<b>Gross profit</b>		<b>75,471</b>	55,836
Other revenue	6	<b>7,003</b>	6,765
Distribution costs		<b>(48,574)</b>	(54,186)
Administrative expenses		<b>(13,088)</b>	(11,784)
Other operating income/(expenses), net		<u><b>3,484</b></u>	<u>(25,899)</u>
<b>Profit/(loss) from operations</b>		<b>24,296</b>	(29,268)
Finance costs	7	<b>(673)</b>	(673)
Other expenses, net		<b>(202)</b>	(6,153)
Share of results of an associate		-	(2)
Impairment loss on interest in an associate		-	(1,144)
<b>Profit/(loss) before taxation</b>	8	<b>23,421</b>	(37,240)
Income tax	9	<b>(3,170)</b>	(581)
<b>Profit/(loss) for the period</b>		<u><b>20,251</b></u>	<u>(37,821)</u>
<b>Attributable to</b>			
Equity holders of the Company		<b>20,251</b>	(37,570)
Minority interests		-	(251)
		<u><b>20,251</b></u>	<u>(37,821)</u>
<b>Earnings/(loss) per share</b>			
Basic (HK cents)	10	<u><b>4.23</b></u>	<u>(7.91)</u>
<b>Dividends</b>	11	<u><b>6,007</b></u>	-

The notes on pages 5 to 15 form part of this interim financial report.

**Condensed Consolidated Balance Sheet**

As at 30th September 2007

		<b>30th September 2007</b>	31st March 2007
	<i>Notes</i>	<b>HK\$'000</b> <b>(unaudited)</b>	<i>HK\$'000</i> (audited)
<b>Non-current assets</b>			
Property, plant and equipment	12	<b>25,365</b>	23,035
Prepaid lease payments		<b>8,672</b>	8,728
Investment properties		<b>14,390</b>	14,005
Available-for-sale investments	13	<b>430</b>	430
		<b>48,857</b>	46,198
<b>Current assets</b>			
Inventories – goods for resale		<b>112,370</b>	70,081
Prepaid lease payments		<b>110</b>	110
Trade receivables, other receivables, deposits and prepayments	14	<b>55,192</b>	37,393
Cash and cash equivalents		<b>195,160</b>	118,202
		<b>362,832</b>	225,786
<b>Current liabilities</b>			
Trade payables, other payables and accrued charges	15	<b>86,580</b>	75,430
Income tax payable		<b>2,344</b>	1,078
Loan notes		<b>73,289</b>	73,025
		<b>162,213</b>	149,533
<b>Net current assets</b>		<b>200,619</b>	76,253
<b>Total assets less current liabilities</b>		<b>249,476</b>	122,451
<b>Non-current liabilities</b>			
Rental received in advance		<b>2,530</b>	2,568
<b>Net assets</b>		<b>246,946</b>	119,883
<b>Capital and reserves</b>			
Share capital	16	<b>60,070</b>	33,372
Reserves		<b>186,876</b>	86,511
<b>Total equity attributable to equity holders of the Company</b>		<b>246,946</b>	119,883

The notes on pages 5 to 15 form part of this interim financial report.

## Condensed Consolidated Statement of Changes in Equity – Unaudited

For the six months ended 30th September 2007

	Attributable to equity holders of the Company							
	Share capital HK\$'000	Share premium HK\$'000	Land and buildings revaluation reserve HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1st April 2007	<b>33,372</b>	<b>84</b>	<b>242</b>	<b>345</b>	<b>252,381</b>	<b>17,524</b>	<b>(184,065)</b>	<b>119,883</b>
Currency translation differences	-	-	-	<b>2,207</b>	-	-	-	<b>2,207</b>
Share issue expenses	-	<b>(2,185)</b>	-	-	-	-	-	<b>(2,185)</b>
Total income and expenses for the period recognised directly in equity	-	<b>(2,185)</b>	-	<b>2,207</b>	-	-	-	<b>22</b>
Profit for the period	-	-	-	-	-	-	<b>20,251</b>	<b>20,251</b>
Total income and expense recognised for the period	-	<b>(2,185)</b>	-	<b>2,207</b>	-	-	<b>20,251</b>	<b>20,273</b>
Issue of shares (Note 16)	<b>26,698</b>	<b>80,092</b>	-	-	-	-	-	<b>106,790</b>
Balance at 30th September 2007	<b>60,070</b>	<b>77,991</b>	<b>242</b>	<b>2,552</b>	<b>252,381</b>	<b>17,524</b>	<b>(163,814)</b>	<b>246,946</b>

	Attributable to equity holders of the Company									
	Share capital HK\$'000	Share premium HK\$'000	Land and buildings revaluation reserve HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Minority interest HK\$'000	Total HK\$'000
Balance at 1st April 2006	333,719	84	242	568	252,381	-	(417,345)	169,649	321	169,970
Currency translation differences	-	-	-	1,915	-	-	-	1,915	(70)	1,845
Total income and expenses for the period recognised directly in equity	-	-	-	1,915	-	-	-	1,915	(70)	1,845
Loss for the period	-	-	-	-	-	-	(37,570)	(37,570)	(251)	(37,821)
Total income and expenses recognised for the period	-	-	-	1,915	-	-	(37,570)	(35,655)	(321)	(35,976)
Balance at 30th September 2006	<b>333,719</b>	<b>84</b>	<b>242</b>	<b>2,483</b>	<b>252,381</b>	<b>-</b>	<b>(454,915)</b>	<b>133,994</b>	<b>-</b>	<b>133,994</b>

The notes on pages 5 to 15 form part of this interim financial report.

**Condensed Consolidated Cash Flow Statement***For the six months ended 30th September 2007*

	<b>Six months ended 30th September</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
<b>Net cash used in operating activities</b>	<b>(21,644)</b>	(7,318)
<b>Net cash used in investing activities</b>	<b>(4,877)</b>	(2,601)
<b>Net cash generated from financing activities</b>	<b>105,400</b>	–
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>78,879</b>	(9,919)
<b>Cash and cash equivalents at beginning of the period</b>	<b>118,202</b>	117,242
<b>Effect of foreign exchange rate changes</b>	<b>(1,921)</b>	(465)
<b>Cash and cash equivalents at the end of the period</b>	<b><u>195,160</u></b>	<b><u>106,858</u></b>

The notes on pages 5 to 15 form part of this interim financial report.

## NOTES TO THE INTERIM FINANCIAL REPORT

### 1. GENERAL

The Group is principally engaged in trading and retailing of watches and property leasing.

The Company is a limited company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office is situated at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

This interim financial report is presented in thousand of units of Hong Kong dollars (HK\$'000), unless otherwise stated, and has been approved for issue by the Board of Directors on 3rd December 2007.

### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This unaudited interim financial report has been prepared in accordance with HKAS 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The interim financial report does not include all the information and disclosures required in financial statements, and should be read in conjunction with the annual financial statements for the year ended 31st March 2007.

### 3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs", WHICH ALSO INCLUDED HKASs AND INTERPRETATIONS)

The accounting policies adopted in the preparation of the interim financial report are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31st March 2007, except for the adoption of the new and revised HKFRSs as noted below:

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – INT 8	Scope of HKFRS 2
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions

The adoption of the above new standards, revised standards and interpretations does not result in substantial changes to the Group's accounting policies.

**NOTES TO THE INTERIM FINANCIAL REPORT** (Continued)**4. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs**

The Group has not early adopted the following new and revised HKFRSs relevant to the interim financial report that have been issued but are not yet effective.

HKFRS 8	Operating Segment <sup>1</sup>
HKAS 23 (revised)	Borrowing Cost <sup>1</sup>
HK(IFRIC) – INT 12	Service Concession Arrangements <sup>2</sup>
HK(IFRIC) – INT 13	Customer Loyalty Programmes <sup>3</sup>
HK(IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January 2009.

<sup>2</sup> Effective for annual periods beginning on or after 1st January 2008.

<sup>3</sup> Effective for annual periods beginning on or after 1st July 2008.

**5. TURNOVER AND SEGMENT INFORMATION**

The Group has determined that business segments are its primary reporting format and geographical segments are its secondary reporting format. Revenue from external customers (turnover) represents the sale value of watches supplied to customers and rental income.

The Group major operating business organised and managed is sales of watches.

**NOTES TO THE INTERIM FINANCIAL REPORT** (Continued)

**5. TURNOVER AND SEGMENT INFORMATION** (Continued)

**a) Business Segment**

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

	<b>Six months ended 30th September 2007</b>			
	<b>Sales of watches HK\$'000 (unaudited)</b>	<b>Others* HK\$'000 (unaudited)</b>	<b>Elimination HK\$'000 (unaudited)</b>	<b>Consolidated HK\$'000 (unaudited)</b>
<b>Turnover</b>				
External sales	199,604	261	-	199,865
Inter-segment sales	-	-	-	-
	<u>199,604</u>	<u>261</u>	<u>-</u>	<u>199,865</u>
<b>Segment results</b>	<u>27,769</u>	<u>(564)</u>	<u>-</u>	<u>27,205</u>
<b>Unallocated operating expenses</b>				<u>(4,759)</u>
<b>Operating profits</b>				22,446
<b>Interest income</b>				1,850
<b>Finance costs</b>				(673)
<b>Others expenses, net</b>				
- allocated	(18)	-	-	(18)
- unallocated				(184)
				<u>(202)</u>
<b>Profit before taxation</b>				23,421
<b>Income tax</b>				<u>(3,170)</u>
<b>Profit for the period</b>				<u>20,251</u>

\* Others included property leasing.



**NOTES TO THE INTERIM FINANCIAL REPORT** (Continued)**5. TURNOVER AND SEGMENT INFORMATION** (Continued)**a) Business Segment** (Continued)

	Six months ended 30th September 2006			Consolidated HK\$'000 (unaudited)
	Sales of watches HK\$'000 (unaudited)	Others* HK\$'000 (unaudited)	Elimination HK\$'000 (unaudited)	
Turnover				
External sales	155,211	1,261	-	156,472
Inter-segment sales	-	627	(627)	-
	<u>155,211</u>	<u>1,888</u>	<u>(627)</u>	<u>156,472</u>
Segment results	<u>(23,962)</u>	<u>(484)</u>	<u>-</u>	<u>(24,446)</u>
Unallocated operating expenses				<u>(6,791)</u>
Operating loss				(31,237)
Interest income				1,969
Finance costs				(673)
Others expenses, net				
– allocated	(1,133)	(4,649)	-	(5,782)
– unallocated				(371)
				(6,153)
Share of results of an associate	-	(2)	-	(2)
Impairment loss on interest in an associate	-	(1,144)	-	(1,144)
Loss before taxation				(37,240)
Income tax				<u>(581)</u>
Loss for the period				<u><u>(37,821)</u></u>

\* Others included property leasing and programming service income.

**NOTES TO THE INTERIM FINANCIAL REPORT** (Continued)**5. TURNOVER AND SEGMENT INFORMATION** (Continued)**b) Geographical Segment**

An analysis of the Group's turnover by geographical segment for the period under review and comparative information for the previous period is as follows:

	<b>Six months ended 30th September 2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
The People's Republic of China, excluding Hong Kong	<b>197,984</b>	152,419
Hong Kong	<b>1,431</b>	3,107
Switzerland	<b>206</b>	255
Others*	<b>244</b>	691
	<b>199,865</b>	156,472

\* Others included U.S.A. and Taiwan.

**6. OTHER REVENUE**

	<b>Six months ended 30th September 2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Interest income from bank deposits	<b>1,850</b>	1,969
Customer services income and others	<b>5,153</b>	4,796
	<b>7,003</b>	6,765

**7. FINANCE COSTS**

	<b>Six months ended 30th September 2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Loan notes:		
Interest payable	<b>187</b>	187
Amortisation of premium	<b>486</b>	486
Total finance costs	<b>673</b>	673

**NOTES TO THE INTERIM FINANCIAL REPORT** (Continued)**8. PROFIT/(LOSS) BEFORE TAXATION**

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

	<b>Six months ended 30th September</b>	
	<b>2007</b> <b>HK\$'000</b> <b>(unaudited)</b>	2006 <i>HK\$'000</i> (unaudited) (restated)
Net exchange loss/(gain)	42	(1,533)
Impairment loss		
Trade and other receivables	2	1,662
Property, plant and equipment	-	2,497
Goodwill	-	2,081
Amortisation for prepaid lease payments	55	58
Depreciation	2,858	3,631
Fair value loss on derivative financial instrument	207	-
(Write back)/write-down of slow-moving inventories	(8,901)	31,448
Write-off of property, plant and equipment	18	172
Staff cost including directors' fees and emoluments	26,743	21,939
	<u>26,743</u>	<u>21,939</u>

**9. INCOME TAX**

	<b>Six months ended 30th September</b>	
	<b>2007</b> <b>HK\$'000</b> <b>(unaudited)</b>	2006 <i>HK\$'000</i> (unaudited)
Current:		
Hong Kong	-	-
Outside Hong Kong	3,170	581
	<u>3,170</u>	<u>581</u>

Hong Kong profits tax is calculated at a rate of 17.5% (2006: 17.5%) of the estimated assessable profit for the period. No Hong Kong profits tax is provided because the assessable profits generated during the period are set off by the accumulated tax losses brought forward from previous year.

Taxation for overseas subsidiary companies is provided at the appropriate current rates of taxation ruling in the relevant countries.

**NOTES TO THE INTERIM FINANCIAL REPORT** (Continued)**10. EARNINGS/(LOSS) PER SHARE****(a) Basic earnings/(loss) per share**

The calculation of the basic earnings/(loss) per share attributable to the equity holders of the Company is based on the following data:

	<b>Six months ended 30th September 2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited) (restated)
Profit/(loss) for the period attributable to equity holders of the Company	<u><b>20,251</b></u>	<u>(37,570)</u>
	<b>Number of shares</b>	Number of shares
Weighted average number of ordinary shares	<u><b>478,979,866</b></u>	<u>474,853,925</u>

The weighted average number of ordinary shares for the purpose of calculating basic loss per share for the six months ended 30th September 2006 has been retrospectively adjusted for the effect of the open offer (Note 16) completed in September 2007.

**(b) Diluted earnings/(loss) per share**

No disclosure of the diluted earnings per share for the period under review as there is no dilutive potential ordinary shares. No disclosure of the diluted loss per share for the corresponding previous period is shown as the issue of potential ordinary shares during that period from the exercise of the outstanding share options will be anti-dilutive.

**11. DIVIDENDS**

The Directors declared an interim dividend of 1 HK cent per share (2006: Nil HK cent) for the six months ended 30th September 2007.

	<b>Six months ended 30th September 2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Interim dividend of 1 HK cent per share (2006: Nil HK cent)	<u><b>6,007</b></u>	<u>—</u>

The proposed dividends are not reflected as dividend payable in the condensed consolidated interim report, but will be reflected as an appropriation of distributable reserve for the year ending 31st March 2008.

**NOTES TO THE INTERIM FINANCIAL REPORT** (Continued)**12. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT**

	<b>Land and buildings HK\$'000 (unaudited)</b>	<b>Other fixed assets HK\$'000 (unaudited)</b>	<b>Total HK\$'000 (unaudited)</b>
Net book values at 1st April 2006	16,530	7,861	24,391
Translation differences	184	125	309
Additions	–	2,601	2,601
Impairment loss	–	(2,497)	(2,497)
Write-off	–	(172)	(172)
Depreciation	(358)	(3,273)	(3,631)
Net book values at 30th September 2006	<u>16,356</u>	<u>4,645</u>	<u>21,001</u>
Net book values at 1st April 2007	<b>16,289</b>	<b>6,746</b>	<b>23,035</b>
Translation differences	<b>154</b>	<b>175</b>	<b>329</b>
Additions	–	<b>4,877</b>	<b>4,877</b>
Write-off	–	<b>(18)</b>	<b>(18)</b>
Depreciation	<b>(295)</b>	<b>(2,563)</b>	<b>(2,858)</b>
Net book values at 30th September 2007	<u><b>16,148</b></u>	<u><b>9,217</b></u>	<u><b>25,365</b></u>

**13. AVAILABLE-FOR-SALE INVESTMENTS**

This represents clubs' memberships.

**14. TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS**

Included in trade receivables, other receivables, deposits and prepayments are trade receivables, the aging analysis of which is as follows:

	<b>30th September 2007 HK\$'000 (unaudited)</b>	31st March 2007 HK\$'000 (audited)
Up to 90 days	<b>37,335</b>	23,932
91 to 180 days	<b>62</b>	565
Over 180 days	<b>686</b>	2,702
	<b>38,083</b>	27,199
Provision for trade receivables	<b>(7)</b>	(2,635)
	<b>38,076</b>	24,564
Other receivables, deposits and prepayments	<b>17,116</b>	12,829
	<u><b>55,192</b></u>	<u>37,393</u>

The carrying amounts of trade receivables approximated the fair value.

## NOTES TO THE INTERIM FINANCIAL REPORT (Continued)

### 15. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

- (a) Included in trade payables, other payables and accrued charges are trade payables, the aging analysis of which is as follows:

	<b>30th September 2007 HK\$'000 (unaudited)</b>	31st March 2007 HK\$'000 (audited)
Up to 90 days	<b>35,091</b>	25,393
91 to 180 days	<b>38</b>	336
	<b>35,129</b>	25,729
Other payables and accrued charges	<b>51,451</b>	49,701
	<b>86,580</b>	75,430

The carrying amounts of trade payables approximated the fair value.

- (b) Included in trade payables, other payables and accrued charges is the fair value of a foreign exchange forward contract entered into by the Group to manage the foreign currency exposure on Loan Notes. Change in fair value of the derivative financial instrument was charged to the condensed consolidated income statement.

### 16. SHARE CAPITAL

	<b>Number of shares '000 (unaudited)</b>	<b>Value HK\$'000 (unaudited)</b>
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1st April 2007 and 30th September 2007	<u>1,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1st April 2007	333,719	33,372
Issue of new shares under open offer ( <i>Note</i> )	<u>266,976</u>	<u>26,698</u>
At 30th September 2007	<u>600,695</u>	<u>60,070</u>

*Note:* In September 2007, the Company issued a total of 266,975,612 new shares by way of an open offer to shareholders of the Company at subscription price of HK\$0.40 per new share.

**NOTES TO THE INTERIM FINANCIAL REPORT** (Continued)**17. OPERATING LEASE ARRANGEMENTS****As lessor**

The Group had total future minimum lease receivables under the non-cancellable operating leases with the tenants falling due as follows:

	<b>30th September 2007 HK\$'000 (unaudited)</b>	31st March 2007 HK\$'000 (audited)
Within one year	<b>273</b>	619
In the second to fifth years inclusive	<b>21</b>	16
	<b>294</b>	635

**As lessee**

The Group had total future minimum lease payments under the non-cancellable operating leases falling due as follows:

	<b>30th September 2007 HK\$'000 (unaudited)</b>	31st March 2007 HK\$'000 (audited)
Within one year	<b>25,305</b>	10,373
In the second to fifth years inclusive	<b>91,569</b>	13,555
	<b>116,874</b>	23,928

**18. CONTINGENT LIABILITIES**

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.

**NOTES TO THE INTERIM FINANCIAL REPORT** (Continued)**19. RELATED PARTY TRANSACTIONS AND BALANCES**

The following is a summary of the significant transactions with related parties during the period under review and as at the reporting date.

**(a) Summary of (income) and expense items**

	<b>Six months ended 30th September</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Underwriting fee for open offer paid to company beneficially owned by a substantial shareholder who is also a director of the Company ( <i>Note</i> )	<b>908</b>	–
Consultancy services rendered to a former substantial shareholder of the Company	–	(100)
	<b>908</b>	(100)
	<b>908</b>	(100)

*Note:* The amount was paid during the period.

**(b) Key management personnel remuneration**

	<b>Six months ended 30th September</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Short-term employee benefits	<b>4,159</b>	1,440
Termination benefits	–	505
	<b>4,159</b>	1,945
	<b>4,159</b>	1,945

The above transactions have been entered into on terms agreed by the parties concerned.

**20. PLEDGE OF ASSETS**

As at 30th September 2007, the Group's general banking facilities were secured by certain leasehold properties and prepaid lease payments with carrying value of HK\$3,502,000 (31st March 2007: HK\$7,923,000) and HK\$1,472,000 (31st March 2007: HK\$4,964,000) respectively. The Group has no general banking facilities secured by investment property at the period ended (31st March 2007: HK\$1,335,000).

**21. COMPARATIVE FIGURES**

Certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

Turnover for the period from trading and retailing segment grew 28% from approximately HK\$156 million to approximately HK\$200 million as the Group continues its strategy of expanding the Timecity retail network in the PRC. During the period under review, three new shops were opened in Shenyang, Beijing and Shanghai including the Group's second Vacheron Constantin boutique which is located in Beijing. The Group's first Rolex/Tudor boutique on Nanjingxilu in the heart of Shanghai's busy shopping district was officially opened in October 2007. The opening of new shops and increased turnover has resulted in the increase in inventory from approximately HK\$70 million as at 31st March 2007 to approximately HK\$112 million as at 30th September 2007. The Group's poor-performing shops in Xiamen were closed so that the Group's efforts can be more focused. In total, seven shops were closed during the period. Preparation for the opening of new shops in Tianjin, Shanghai and Shenyang including a new Timecity flagship store in Shanghai are well underway with opening dates scheduled in the second half of the financial year. Revised staff training programs are introduced to improve service quality standards to better serve customers and new Timecity shop image will create a more pleasant shopping environment.

The cost saving measures adopted earlier has improved efficiency and better use of resource resulting in reduction of total operating expenses notwithstanding the increase in turnover. This will be a continuing task for the management to strive for future improvement in this area.

The Juvenia brand is in the process of being re-positioned and re-engineered with the development of new models to be launched in 2008 and the discontinuance of poor performing models.

### Financial Review

#### *Results review*

During the six months ended 30th September 2007, the Group recorded turnover of HK\$199,865,000 (2006: HK\$156,472,000) representing an increase of 27.7% (2006: 7.4%) over the corresponding period of last year. The increase was attributable to the increase in retail sales at the Groups' retail chain Timecity and from the Group's own brand of watches.

Distribution costs decreased by 10.4% to HK\$48,574,000 mainly due to cut down of marketing cost incurred in promoting the Group's own brands. Administrative expenses also rose 11.1% from HK\$11,784,000 to HK\$13,088,000.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Financial Review (Continued)

#### *Liquidity and financial resources*

As at 30th September 2007, the Group's total cash balance amounted to HK\$195,160,000 (31st March 2007: HK\$118,202,000). The increase was mainly attributable to the net proceeds received from the open offer of new shares to shareholders of the Company. Substantially, all of the Group's cash was placed on bank deposits. The Group has no bank borrowing as at 30th September 2007 except for the Swiss Francs 11,800,000 7/8% loan notes issued on 22nd February 1994. Gearing ratio of the Group, expressed as a ratio of total borrowing over total equity, was 29.7% as at 30th September 2007 (31st March 2007: 60.9%).

#### *Foreign exchange risks*

The Group views its main currencies as Hong Kong dollars, Renminbi and Swiss Francs. The exchange loss arisen on translation of the Group's liabilities has been alleviated by appreciation of the Renminbi during the period. The Group monitors its exposure to foreign exchange risks and, when it considers necessary and appropriate, will hedge its foreign exchange risks by using financial instruments.

### Prospects

The China luxury watch market fuelled by the booming economy continues to grow as most of the Swiss watchmakers are recording significant growth in China compared with the rest of the world. The Group is already well established in this market and, with the net proceeds from the offer of new shares, is well positioned to strengthen and grow its network.

### Contingent Liabilities

Details of contingent liabilities are set out in note 18 to the interim financial report.

### Material Acquisitions or Disposals

Save as disclosed herein, there was no material acquisitions or disposals by the Group during the six months ended 30th September 2007.

### Employees and Remuneration Policy

There were 486 employees in the Group as at 30th September 2007. The Group offers competitive remuneration packages to employees in line with market trends. Incentives such as discretionary bonuses and staff share options are offered to motivate employees.

## CORPORATE GOVERNANCE

In the opinion of the Directors of the Company, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the period under review save for the deviations discussed below:

Code provision E.1.2 of the Code provides that the Chairman of the Board should attend the annual general meeting. The Chairman of the Board had not attended the annual general meeting of the Company held on 28th September 2007 due to other business commitment. The Chairman of the Board will endeavor to attend all future annual general meetings of the Company.

To ensure compliance with the Code, the Board has undertaken to review and propose the necessary amendments to the Bye-Laws of the Company to bring the constitution of the Company in alignment with certain provisions of the Code. The Company was incorporated in Bermuda and enacted by private act, the Asia Commercial Holdings Limited Company Act, 1989 of Bermuda (the “1989 Act”). Pursuant to section 3(e) of the 1989 Act, director holding office as executive chairman or managing director shall not be subject to retirement by rotation at each annual general meeting as provided in the Bye-Laws.

As the Company is bound by the provisions of the 1989 Act, at this time, the Bye-Laws cannot be amended to fully reflect the requirements of the Code. As such, a special resolution was passed at the special general meeting held on 28th March 2007 to amend the Bye-Laws of the Company so that, inter alia, (i) every Director (save for a Director holding office as Chairman or managing director) of the Company shall be subject to retirement by rotation at least once every three years; (ii) a Director may be removed by an ordinary resolution in general meeting instead of a special resolution; (iii) any Director appointed by the Board to fill a casual vacancy or as an additional director shall hold office until the next following general meeting, instead of the next annual general meeting.

## **CORPORATE GOVERNANCE** (Continued)

To enhance good corporate governance practices, Mr. Eav Yin, the Chairman of the Board has confirmed to the Board on 12th July 2007 that he will voluntarily retire from his directorship at annual general meeting of the Company at least once every three years in future 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.

The Company is committed to implement good corporate governance practices and has established a Remuneration Committee in July 2005 and an Audit Committee in January 1999. The terms of reference of the aforesaid committees have been established and are placed on the Company's website. The Audit Committee has reviewed the unaudited interim financial report for the six months ended 30th September 2007. In carrying out this review, the Audit Committee has relied on a review conducted by the Group's external auditors in accordance with Hong Kong Standard on Review Engagements 2410 issued by the HKICPA.

### **Compliance of the Model Code for Securities Transaction by Directors of Listed Issuers**

All Directors have confirmed that they complied with the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules throughout the period under review.

## DISCLOSURE OF INTERESTS

### Directors' and Chief Executive's Interests in Shares, Underlying Shares and Debentures

As at 30th September 2007, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company and any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

#### *Long positions in shares of the Company*

<b>Name of Director</b>	<b>Nature of interest</b>	<b>Number of ordinary shares held</b>	<b>Approximate percentage of aggregate interests to total issued share capital</b> %
Mr. Eav Yin	<i>Note</i>	365,664,261	60.87
Mr. Eav Ming Keong, Kinson	Personal	707,400	0.12

*Note:* Among the 365,664,261 shares in which Mr. Eav Yin is deemed to have interests under the SFO (a) 19,531,800 shares are personal interest of Mr. Eav Yin, (b) 804,600 shares are held by Mdm. Lam Kim Phung (spouse of Mr. Eav Yin), (c) 253,633,692 shares by Century Hero International Limited, (d) 932,400 shares by Debonair Company Limited, (e) 9,986,364 shares by Goodideal Industrial Limited, (f) 1,275,336 shares by Hexham International Limited, (g) 20,323,269 shares by Goodness Management Limited and (h) 59,176,800 shares by Chanchhaya Trustee Holding Corporation (as a trustee of Eav An Unit Trust). Century Hero International Limited, Debonair Company Limited, Hexham International Limited, Goodness Management Limited are wholly owned and Goodideal Industrial Limited is 87% owned by Mr. Eav Yin. Eav An Unit Trust is a discretionary trust of which Mr. Eav Yin is the founder, the beneficiaries include Mr. Eav Yin, his wife and their children.

Save as disclosed herein, as at 30th September 2007, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register kept by the Company under Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

**DISCLOSURE OF INTERESTS** (Continued)**Director's Rights to Acquire Shares or Debentures**

Save as disclosed herein, at no time during the six months ended 30th September 2007, was the Company or any of its associated corporations a party to any arrangement to enable the Directors or chief executives to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors or chief executives or their spouses or children under 18 years of age was granted any right to subscribe for any shares in, or debentures of, the Company or any of its associated corporations.

**Substantial Shareholders' Interests**

As at 30th September 2007, so far as is known to any Directors and chief executive of the Company, the following persons (other than the Directors or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of the Part XV of the SFO, or which were recorded in the register kept by the Company or required to be notified under Section 336 of the SFO:

<b>Name of shareholder</b>	<i>Notes</i>	<b>Number of ordinary shares beneficial held</b>	<b>Approximate percentage of issued share capital %</b>
Mdm. Lam Kim Phung	1	365,664,261	60.87
Century Hero International Limited	2	253,633,692	42.22
Chanchhaya Trustee Holding Corporation	3	59,176,800	9.85
Covenhills Limited	4	78,120,972	13.01

*Notes:*

- These shares include 804,600 shares held by Mdm. Lam Kim Phung and the remaining 364,859,661 shares represent the interest held by Mr. Eav Yin, spouse of Mdm. Lam Kim Phung, whose interests are disclosed in the above section headed "Directors' and Chief Executive's Interests in Shares, Underlying Shares and Debentures".
- Century Hero International Limited is wholly owned by Mr. Eav Yin who is also a director of this company.
- Chanchhaya Trustee Holding Corporation is trustee of Eav An Unit Trust, a discretionary trust, the beneficiaries of which include Mr. Eav Yin, his wife and their children.
- Covenhills Limited is owned equally by Mr. Leong Lou Teck, Mr. Leong Lum Thye, Miss Leong Yoke Kheng and Mr. Leong Siew Khuen.

All the interests disclosed above represent long positions in shares of the Company.

## **OTHER INFORMATION**

### **Interim Dividend**

The Directors declared an interim dividend of 1 HK cent per share for the six months ended 30th September 2007 and payable on or about 16th January 2008 to shareholders whose names appear on the Register of Members of the Company on 28th December 2007.

### **Closure of Register of Members**

The register of members of the Company will be closed from 18th December 2007 to 28th December 2007 both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 17th December 2007.

### **Purchase, Sale or Redemption of Listed Securities**

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of Company's listed securities on the Stock Exchange during the six months ended 30th September 2007.

### **Share Option Scheme**

On 20th September 2002, the shareholders of the Company approved the adoption of a new share option scheme (the "2002 Share Option Scheme"). The purpose of the 2002 Share Option Scheme is to encourage qualifying grantees to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. Qualifying grantees of the 2002 Share Option Scheme means (i) any employee including officer and director or any business-related consultant, agent, representative or adviser of the Company or any subsidiary or any affiliate; or (ii) any supplier, agent or consultant who provide goods or services to the Company or any subsidiary or any affiliate; or (iii) any customer of the Company or any subsidiary or any affiliate; or (iv) any business ally or joint venture partner of the Company or any subsidiary or any affiliate.

As at 30th September 2007, there were no outstanding option granted under the 2002 Share Option Scheme and no option was granted, exercised, cancelled or lapsed during the six months ended 30th September 2007.

By order of the Board  
**Au Shiu Leung, Alex**  
*Executive Director and Company Secretary*

Hong Kong, 3rd December 2007