# STELUX
# Holdings International Limited

寶光實業(國際)有限公司

Annual Report 2006

Stock Code: 84

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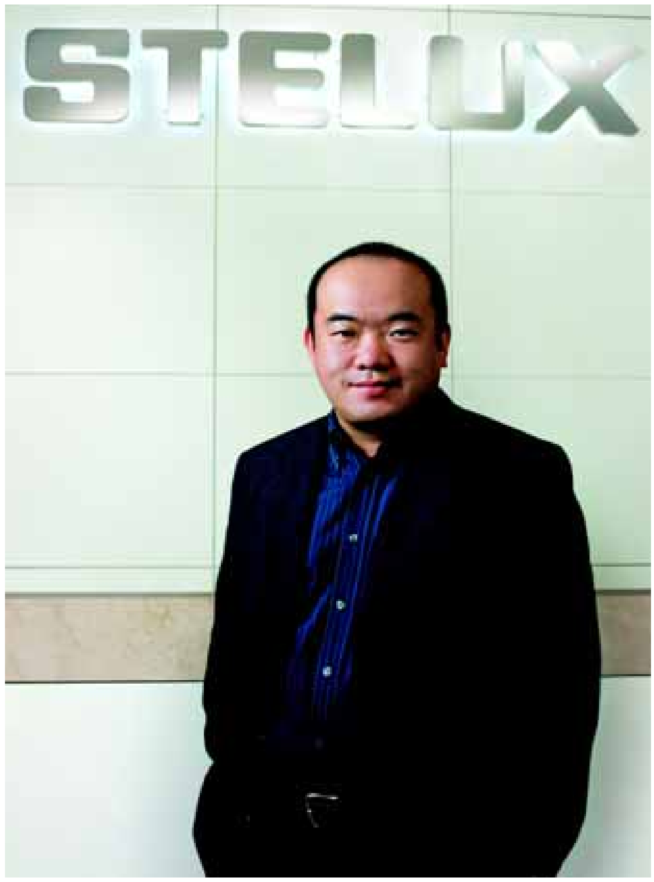
# FINANCIAL SUMMARY

| | 2002 | 2003 | (As restated) 2004 | (As restated) 2005 | **2006** |
|---|---|---|---|---|---|
| | *HK$'M* | *HK$'M* | *HK$'M* | *HK$'M* | ***HK$'M*** |
| Consolidated profit and loss account for the year ended 31st March | | | | | |
| Turnover | 1,217.6 | 1,198.1 | 1,210.0 | 1,413.5 | **1,618.0** |
| (Loss)/profit attributable to shareholders | (9.7) | (32.1) | 82.7 | 171.0 | **187.8** |
| Interim dividend paid | – | – | – | 9.5 | **9.5** |
| Final dividend proposed | – | – | 18.9 | 23.8 | **26.6** |
| Special dividend paid | – | – | – | – | **475.7** |
| Consolidated balance sheet as at 31st March | | | | | |
| Assets | 1,614.8 | 1,576.0 | 1,677.3 | 1,830.6 | **1,360.9** |
| *Less:* Liabilities and minority interests | 868.9 | 857.8 | 854.8 | 867.2 | **713.2** |
| Shareholders' funds | 745.9 | 718.2 | 822.5 | 963.4 | **647.7** |
| | *HK$* | *HK$* | *HK$* | *HK$* | ***HK$*** |
| Per share data | | | | | |
| (Loss)/earnings | (0.010) | (0.034) | 0.088 | 0.181 | **0.197** |
| Proposed final dividend | – | – | 0.020 | 0.025 | **0.028** |
| Net assets | 0.797 | 0.767 | 0.872 | 1.013 | **0.681** |

This year the Group is pleased to announce a profit attributable to shareholders after tax of HK$187 million after minority interests compared to an after tax profit of HK$171 million last year. Turnover was HK$1,618 million up from HK$1,414 million (restated) last year.

The Directors recommend the payment of a final dividend of HK$0.028 (2005: HK$0.025) per ordinary share. Total dividends paid and proposed for the financial year ended 31st March 2006 was HK$0.538 (2005: HK$0.035), including a special dividend of HK$0.5 per share.

Comparative figures for Group turnover, profit attributable to shareholders and dividends paid/proposed for the three financial years ended 31st March 2006 are shown below:




| | **Turnover** *(HK$ million)* | **Profit** *(HK$ million)* | **Dividend** *(HK$)* | **Special Dividend** *(HK$)* |
|---|---|---|---|---|
| 2003/2004 | # 1,210 | 83 | 0.020 | – |
| 2004/2005 | # 1,414 | 171 | 0.035 | – |
| 2005/2006 | 1,618 | 187 | 0.038 | 0.500 |

# Dividend income from unlisted investments and interest income have been reclassified from turnover to other gains to conform with the presentation of the year 2005/2006.

## WATCH RETAIL BUSINESS

Our watch retail business mainly operate as "CITY CHAIN" and "MOMENTS". Turnover was up 11% from last year. Profit for the year before tax was HK$23 million compared to HK$78 million last year.

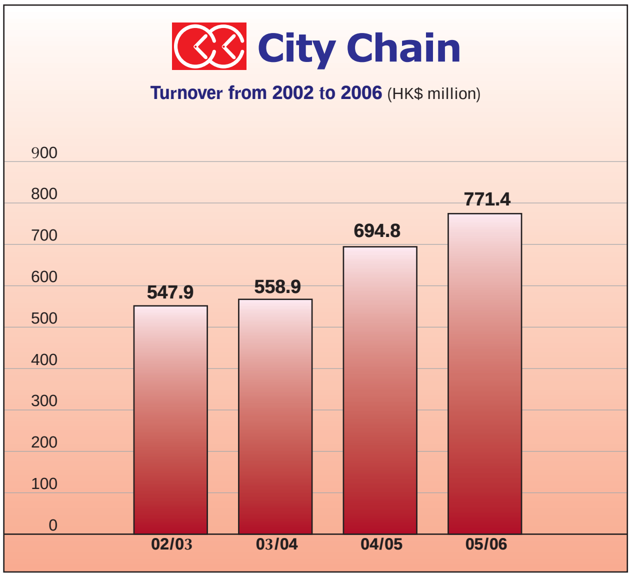
The decrease in profit, despite an increase in turnover was due to several factors – Higher Hong Kong shop rentals; high oil prices which dampened buying sentiment (particularly, in the South East Asian markets); initial setting up costs for our mainland China expansion (which are higher compared to other countries); and aggressive advertisement spending for the launching of the "CYMA" brand.

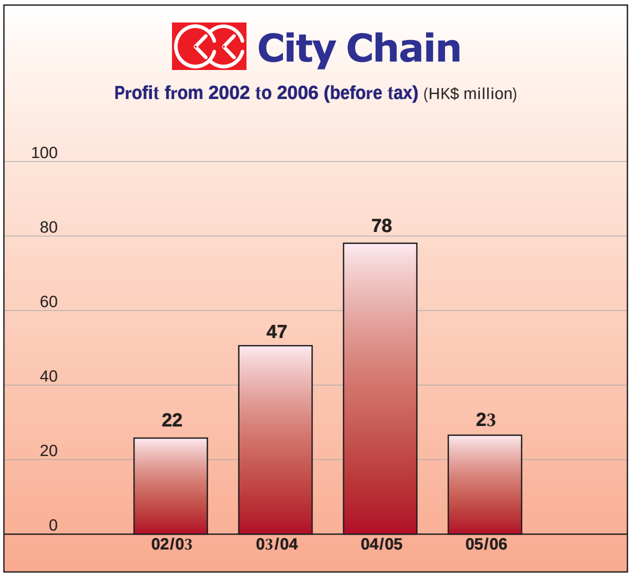
Additionally, due to the politically induced and volatile retail market in Taiwan, "CITY CHAIN" retail operations there were closed down and a new wholesale business unit was set up during the year. We have taken a prudent approach and made a provision for the cessation of the retail business. Together with the operating loss for the Taiwan retail operations for the year and the provision for cessation of business made, our watch retail operations have taken a hit of HK$9 million.

All these factors, with the Taiwan factor being one-off, contributed to the downturn in profits, particularly, during the first six months of the financial year, but despite this, performance improved considerably in the second half with a profit of HK$26 million. Profit growth will resume in the coming year with a double digit growth in turnover.

Our watch operations will continue to expand in all countries where we have a presence. Particularly, in mainland China to enhance the brand image of the "CITY CHAIN" brandname, we intend to open more stand alone shops in the coming year. In addition to the current operations in Guangdong province and Shanghai, shops will also be opened in Beijing. There are currently 17 shops and 71 "CITY CHAIN" and house brand counters in mainland China.

The vast mainland market where there is a burgeoning and fast growing middle class is most suitable for the "CITY CHAIN" brandname and watch house brands, "CYMA" and "TITUS" which are in the mid-priced range segment. Investment costs in building and enhancing our brandnames will be recouped in the coming years. We believe the mainland market will be a major profit contributor in the future.

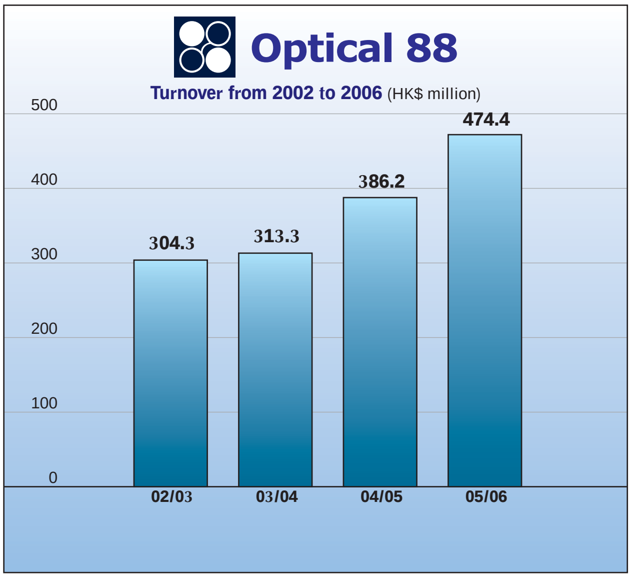


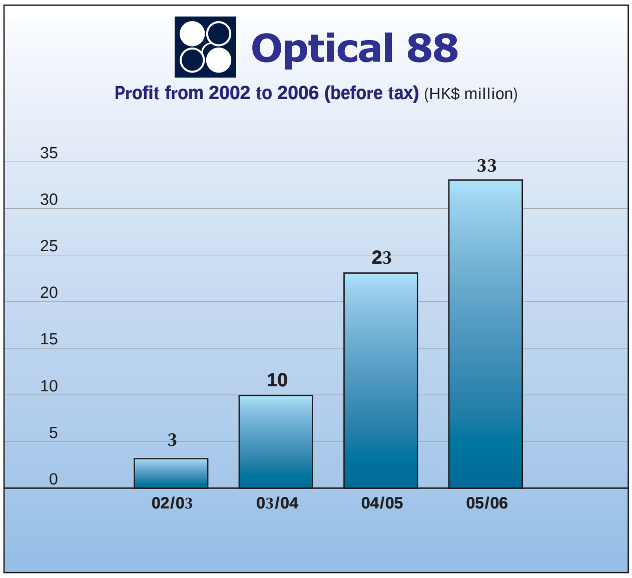



## OPTICAL RETAIL BUSINESS

Our optical retail business, comprising mainly of "OPTICAL 88", "IZE" and "INSIGHT" returned a strong performance this year. Turnover was up 23% and profit before tax was HK$33 million compared with HK$23 million last year, a year on year increase of almost 44%. The good results were due to several factors, including, constant growth in market share in all countries and widening our customer profile by opening premier shops "IZE" and "INSIGHT".

In addition to the strong growth in Hong Kong and Macau, operations in Thailand, Singapore and Malaysia are beginning to mature and contribute to positive results. Southern China while not yet contributing is also making satisfactory progress. We will continue to expand in all markets where we have a presence. We expect satisfactory growth in profits and turnover for our optical retail business in the coming year.




## WATCH ASSEMBLY, WHOLESALE AND EXPORT TRADING

Our watch assembly, wholesale and export trading business recorded a loss of about HK$3 million.

Our UK wholesale subsidiary was closed down at the end of March 2006 as we cannot see any competitive advantage in operating a wholly owned wholesale subsidiary after the end of the adidas watch licence in 2005. The operating loss and provision for the closure of this business, which is non-recurring was HK$12 million.

UNIVERSAL GENEVE, a premier luxury watch brand, has relaunched its own movement, "UG 100 MICROTOR", an updated version of the "UG 66 MICROTOR" which was introduced in the 1960's as the world's slimmest automatic movement. The "MICROTOR" collection received a good response when exhibited at the Basel World 2006. We have taken a prudent approach expensing research, development and set-up costs for the "MICROTOR" movement in this year's result. Universal Geneve S.A. recorded a loss of HK$12 million this year.

Our export and trading arm only recorded a slight profit due to restructuring. Satisfactory progress is made for the licensed brand, "EVERLAST". We expect to sign on more licensed brands in the coming year.

The Thong Sia Group (sole distributor for "SEIKO" timepieces acquired in September 2005) was a major profit contributor in this business segment. Thong Sia's six months performance after the acquisition was up to expectation. With increased sales and a full year's performance reflected in the accounts, Thong Sia is expected to report even better results next year.

## INVESTMENT HOLDING

During the year, the Group took a 3% shareholding at IPO price in Xinyu Hengdeli Holdings Limited ("Xinyu"), a luxury brand watch retailer and distributor in mainland China. The gain from this shareholding was about HK$51 million for the period under review. As part of the Group's expansion into mainland China, we will explore business opportunities with Xinyu.

In line with our business strategy, the disposal of Stelux House to the Group's substantial shareholder was completed at the end of March 2006 and a special dividend of HK$0.50 per share was paid to shareholders.

## BUSINESS STRATEGY

During the year under review, the Group, in line with its strategy of focusing on the watch and optical businesses, has undergone a substantial restructuring, consolidating its businesses to strengthen competitive advantages.

– acquisition of the Thong Sia sole distributorship for "SEIKO" timepieces in Hong Kong, Malaysia and Singapore in September 2005;

– the closure of our "HIPO.fant" child and infant business in March 2006;

– the disposal of Stelux House at the end of March 2006 to our substantial shareholder;

– the closure of Taiwan "CITY CHAIN" retail operations and setting up a wholesale business under the Thong Sia Group; and

– the closure of our UK wholesale subsidiary and partnering a local distributor.

We believe that the restructuring and consolidation sets a solid foundation for the Group's future growth and development.

## FINANCE

The Group's bank borrowings at balance sheet date were HK$322 million (2005: HK$495 million), out of which, HK$286 million (2005: HK$216 million) were repayable within 12 months. The Group's gearing ratio at balance sheet date was 0.50 (2005: 0.51), which was calculated based on the Group's bank borrowings and shareholders' funds of HK$648 million (2005: HK$963 million).

Of the Group's bank borrowings, 10% (2005: 3%) were denominated in foreign currencies. The Group's bank borrowings denominated in Hong Kong Dollars were on a floating rate basis at either bank prime lending rates or short term inter-bank offer rates.

The Group does not engage in speculative derivative trading.

**STAFF**

The Group's remuneration policies are reviewed on a regular basis and remuneration packages are in line with market practices in the relevant countries where the Group operates. As of 31st March 2006, the Group had 2,451 (2005: 2,259) employees.

I express my most sincere thanks and gratitude to colleagues and staff members for their commitment, hard work and loyalty to the Group during the year.

On behalf of the Board
**Joseph C. C. Wong**
*Vice Chairman and Chief Executive Officer*

Hong Kong, 19th July 2006

The directors submit their report together with the audited accounts for the year ended 31st March 2006.

**PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are shown on pages 79 to 83.

**RESULTS AND DIVIDENDS**

The results of the Group for the year ended 31st March 2006 are set out in the consolidated profit and loss account on page 22.

The directors declared an interim dividend of HK$0.01 (2005: HK$0.01) and a special dividend of HK$0.50 per ordinary share, totalling HK$9,513,000 and HK$475,670,000, which were paid on 16th February 2006 and 31st March 2006 respectively.

The directors recommend the payment of a final dividend of HK$0.028 (2005: HK$0.025) per ordinary share totalling HK$26,638,000.

**RESERVES**

Movements in the reserves of the Group and the Company during the year are set out in note 30 to the accounts.

**DONATIONS**

During the year, the Group made charitable donations of HK$1,479,000.

**PROPERTY, PLANT AND EQUIPMENT**

Details of the movements in property, plant and equipment are shown in note 17 to the accounts.

**PRINCIPAL PROPERTIES**

Details of principal properties held for own use and for investment purposes are set out in pages 84 to 88.

**SHARE CAPITAL AND SHARE OPTIONS**

Details of the movements in share capital and share options of the Company are set out in note 29 to the accounts.

**PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's Bye-laws although there is no restriction against such rights under the laws in Bermuda.

**DIRECTORS AND INTERESTS IN CONTRACTS**

The directors during the year and at the date of this report were:

| | |
|---|---|
| **Wong** Chong Po | |
| Joseph C. C. **Wong** | |
| **Chu** Kai Wah, Anthony | |
| Sakorn **Kanjanapas** | |
| **Lee** Shu Chung, Stan | |
| **Lau** Tak Bui, Vincent | (appointed on 1st April 2006) |
| **Wong** Yuk Woon | (resigned on 1st June 2006) |
| **Kwong** Yiu Chung | (independent non-executive) |
| **Wu** Chun Sang | (independent non-executive) |
| **Wu** Chi Man, Lawrence | (independent non-executive - appointed on 28th October 2005) |
| **Chu** Chun Keung, Sydney | (independent non-executive - resigned on 1st August 2005) |

In accordance with Bye-law 110(B) of the Company's Bye-laws, Dr. Kwong Yi Hang, Agnes offers herself for election as a director of the Company at the forthcoming Annual General Meeting.

The terms of office of all non-executive directors, including the independent non-executive directors, shall be for a term of 3 years, subject to retirement (pursuant to Bye-law 110(A) of the Company's Bye-laws) whichever is the earlier. In accordance with Bye-law 110(A) of the Company's Bye-laws, Mr. Kwong Yiu Chung will retire by rotation at the forthcoming Annual General Meeting, but will not offer himself for re-election. In accordance with Bye-law 110(A) of the Company's Bye-laws, Mr. Sakorn Kanjanapas will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

Mr. Vincent Lau Tak Bui's and Dr. Lawrence Wu Chi Man's appointments by the Board of Directors in accordance with Bye-law 101 of the Company's Bye-laws will come to an end at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

No director has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

During the year, Mr. Wong Chong Po, Mr. Joseph C. C. Wong, Mr. Anthony Chu Kai Wah, Mr. Stan Lee Shu Chung and Mr. Wong Yuk Woon were eligible to an annual bonus determinable under the terms of an executive bonus scheme with respect to their management of the Group. Provision for the executive bonus in respect of the directors eligible under the Executive Bonus Scheme for the year ended 31st March 2006 amounted to HK$14,770,000 (2005: HK$13,012,000).

Apart from the foregoing, no other contracts of significance in relation to the Company's business to which the Company, its subsidiaries or its holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## SHARE OPTIONS

On 9th March 2005, a new share option scheme, replacing the previous scheme which was approved by the shareholders on 25th June 1997, for the employees, officers and directors of the Company and its subsidiaries (the "Share Option Scheme") was approved and adopted by the shareholders pursuant to which the Board was authorised to grant options to the employees, officers and directors of the Company or its subsidiaries to subscribe for shares of the Company for a fixed period. The option period refers to a period which the Board may in its absolute discretion determine and specify, save that (a) for ease of administration, in the absence of a separate Board resolution at the time of grant specifying otherwise, such period should be seven years from the commencement date of the share option and (b) in any event such period shall expire not later than 10 years from the commencement date of the share option. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes must not in aggregate exceed 95,134,002 shares. The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes must not exceed 30% of the shares in issue from time to time. No options may be granted under any schemes of the Company if this will result in the limit being exceeded. An offer of the grant of options must be accepted within 28 days from the commencement date of the relevant option period. The purpose of the Share Option Scheme is to attract and retain the best quality personnel for the development of the Company's business; to provide additional incentives to the employees, officers and directors of the Company and its subsidiaries and to promote the long term financial success of the Company by aligning the interests of Option Holder (any employee or a director of the Company or any subsidiary who accepts an offer of the grant of an Option in accordance with the terms of the Share Option Scheme or their legal personal representatives) to shareholders. The consideration payable on acceptance of the offer for the grant of an option is HK$1. The subscription price is determined by the Board at the time of grant of the relevant option and shall not be less than whichever is the higher of the closing price of the shares as stated in the daily quotation sheets of the Stock Exchange of Hong Kong Limited ("Stock Exchange") on the commencement date of the share option, which must be a business day; the average closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceeding the commencement date of the share option; and the nominal value of a share. No option has been granted during the year and there was no option outstanding as at 31st March 2006.

As at 31st March 2006, the total number of ordinary shares available for issue in the remaining life of the Share Option Scheme was 95,134,002.

With the exception of the Share Option Scheme of the Company, at no time during the year was the Company, its subsidiaries or its holding company a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

**DIRECTORS' INTERESTS**

As at 31st March 2006, the interests and short positions of the directors, chief executive and their associates in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") (including interests which they are deemed or taken to have under such provisions of the SFO) as recorded in the register maintained under Section 352 of the SFO or as otherwise notified to the Company were as follows:

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

**(a) The Company – Ordinary shares**

| | Number of shares | | | | Approximate percentage of issued share capital as at 31st March 2006 |
|---|---|---|---|---|---|
| | Personal interests | Family interests | Corporate interests | Total | |
| Mr. Wong Chong Po | 28,200,000 | – | – | 28,200,000 | 2.96 |
| Mr. Joseph C. C. Wong | 53,080,011 | 10,000 | – | 53,090,011 | 5.58 |
| Mr. Chu Kai Wah, Anthony | 2,000,000 | – | – | 2,000,000 | 0.21 |
| Mr. Sakorn Kanjanapas | 6,991,056 | – | – | 6,991,056 | 0.73 |
| Mr. Lee Shu Chung, Stan | 2,000,000 | – | – | 2,000,000 | 0.21 |
| Mr. Wong Yuk Woon | 2,000,000 | – | – | 2,000,000 | 0.21 |

**(b) Subsidiaries**

| | Number of shares | | | | Approximate percentage of preference shares as at 31st March 2006 |
|---|---|---|---|---|---|
| | Personal interests | Family interests | Corporate interests | Total | |
| (i) City Chain (Thailand) Company Limited – Preference shares[1] | | | | | |
| Mr. Wong Chong Po | 200 | – | 208,800 | 209,000 | 99.52 |
| Mr. Joseph C. C. Wong | 200 | – | 208,800 | 209,000 | 99.52 |
| Mr. Sakorn Kanjanapas | 200 | – | 208,800 | 209,000 | 99.52 |
| (ii) Stelux Watch (Thailand) Company Limited – Preference shares[2] | | | | | |
| Mr. Wong Chong Po | 600 | – | – | 600 | 16.67 |
| Mr. Joseph C. C. Wong | 600 | – | – | 600 | 16.67 |
| Mr. Sakorn Kanjanapas | 600 | – | – | 600 | 16.67 |
| (iii) Optical 88 (Thailand) Company Limited – Preference shares[3] | | | | | |
| Mr. Wong Chong Po | 5,000 | – | 225,000 | 230,000 | 90.20 |
| Mr. Joseph C. C. Wong | 5,000 | – | 225,000 | 230,000 | 90.20 |
| Mr. Sakorn Kanjanapas | 5,000 | – | 225,000 | 230,000 | 90.20 |

**DIRECTORS' INTERESTS** *(Continued)*

**(b) Subsidiaries** *(Continued)*

*Notes:*

(1) City Chain (Thailand) Company Limited is a wholly-owned subsidiary of the Company. The preference shares held by certain directors represent preference shares issued by City Chain (Thailand) Company Limited which do not carry any voting rights and which are not entitled to any profit sharing but are only entitled to annual fixed dividends. The corporate interests of each of Mr. Wong Chong Po, Mr. Joseph C. C. Wong and Mr. Sakorn Kanjanapas in 208,800 preference shares duplicate with each other.

(2) Stelux Watch (Thailand) Company Limited is a wholly-owned subsidiary of the Company. The preference shares held by certain directors represent preference shares issued by Stelux Watch (Thailand) Company Limited which do not carry any voting rights and which are not entitled to any profit sharing but are only entitled to annual fixed dividends.

(3) Optical 88 (Thailand) Company Limited is a wholly-owned subsidiary of the Company. The preference shares held by certain directors represent preference shares issued by Optical 88 (Thailand) Company Limited which do not carry any voting rights and which are not entitled to any profit sharing but are only entitled to annual fixed dividends. The corporate interests of each of Mr. Wong Chong Po, Mr. Joseph C. C. Wong and Mr. Sakorn Kanjanapas in 225,000 preference shares duplicate with each other.

Save as disclosed above, no directors, chief executive of the Company or their associates have any interest or short positions in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

**SUBSTANTIAL SHAREHOLDERS**

As at 31st March 2006, the following companies (other than directors of the Company as disclosed above) had interests in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

| **Name** | **Number of shares** | **Percentage of shareholding** | *Note* |
|---|---|---|---|
| Yee Hing Company Limited | 355,031,771 | 37.32 | *(a)* |
| Active Lights Company Limited | 135,653,636 | 14.26 | *(b)* |
| Thong Sia Company Limited | 91,032,218 | 9.57 | *(c)* |

*Notes:*

(a) These shares are held by Yee Hing Company Limited ("Yee Hing") as beneficial owner. The estate of Mr. Wong Chue Meng ("Estate") has a controlling interest in Yee Hing.

(b) These shares are held by Active Lights Company Limited as beneficial owner. Active Lights Company Limited is a company controlled by Yee Hing.

(c) These shares are held by Thong Sia Company Limited ("TSCL") as beneficial owner. The Estate holds 38% and Yee Hing holds 26.25% of the issued shares of TSCL.

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

Save as disclosed in Directors' Interests above, so far as the directors are aware, there are no other parties which were, directly or indirectly, interested in 5% or more of the nominal value of the share capital of the Company as at 31st March 2006 as recorded in the register required to be kept by the Company under Section 336 of the SFO.

**PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group purchased less than 30% of its goods and services from its 5 largest suppliers and sold less than 30% of its goods and services to its 5 largest customers.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and to the best knowledge of the Directors of the Company, at least 25% of issued share capital of the Company was held by public members as at the date of this report.

## CONFIRMATION OF INDEPENDENCE BY INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received confirmations of independence from its independent non-executive directors, who have confirmed their independence as of 1st April 2005 up to and including 31st March 2006. The Company considers its independent non-executive directors to be independent.

## CONNECTED TRANSACTIONS

(1) During the year, the Group purchased timepieces from Thong Sia Watch Company Limited, Thong Sia Company (Singapore) Private Limited and Thong Sia Sdn Bhd, collectively referred to as Thong Sia Companies. The Thong Sia Companies were acquired by the Group on 30th September 2005 ("Acquisition") and have become subsidiaries of the Group since then. Total purchases during the period from 1st April 2005 to 30th September 2005 amounted to HK$23,640,000 (2005 full year: HK$40,998,000). The Company has been granted a conditional waiver by the Stock Exchange from strict compliance with the disclosure requirements under Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules").

The independent non-executive directors, Mr. Kwong Yiu Chung, Dr. Lawrence Wu Chi Man (appointed on 28th October 2005) and Mr. Wu Chun Sang have reviewed the transactions and confirmed that the transactions were:

(a) entered into in the usual and ordinary course of business of the Group;

(b) conducted either (i) on normal commercial terms or (ii) where there is no available comparison on terms that are fair and reasonable so far as the independent shareholders are concerned;

(c) entered into either (i) in accordance with the terms of agreements governing such transactions or (ii) where there are no such agreements on terms no less favourable than terms available to or from independent third parties; and

(d) the annual aggregate value of the transactions had not exceeded the waiver limit.

The auditors of the Company had performed certain agreed upon procedures on the above transactions and confirmed that the transactions:

(a) had received the approval of the directors of the Company;

(b) had been entered into on terms no less favourable than terms available to or from independent third parties; and

(c) had not exceeded the waiver limit.

**CONNECTED TRANSACTIONS** *(Continued)*

(2) (A) During the year, the Group purchased optical products from Vision PRO Trading Company Limited and its subsidiaries ("Vision Pro Group"), Thong Sia Company (Singapore) Private Limited and Thong Sia Sdn Bhd. Total purchases from the Vision Pro Group for the financial year ended 31st March 2006 and from Thong Sia Company (Singapore) Private Limited and Thong Sia Sdn Bhd during the period from 1st April 2005 to 30th September 2005 amounted to HK$4,651,000 (2005 full year: HK$3,876,000).

These transactions are classified as continuing connected transactions exempt from independent shareholders' approval requirements under Rule 14A.34 of the Listing Rules but subject to the annual review, reporting and announcement requirements under Rules 14A.37 to 14A.41, and Rules 14A.45 to 14A.46 of the Listing Rules.

(B) The following are new transactions for the purchase of optical products from a connected party after the Acquisition.

Each of Thong Sia Company (Singapore) Private Limited and Thong Sia Sdn Bhd has been purchasing optical products, on a continuing basis in their ordinary and usual course of business, from Vision Pro Group.

The Estate holds more than a 30% equity interest in TSCL which in turns holds more than a 30% equity interest in the Vision Pro Group, Yee Hing also holds more than a 30% equity interest in the Vision Pro Group. Under the Listing Rules, the Vision Pro Group is an associate of TSCL and Yee Hing which are connected persons of the Company. Accordingly, the purchases of optical products by Thong Sia Company (Singapore) Private Limited and Thong Sia Sdn Bhd from Vision Pro Group constitute continuing connected transactions for the Company upon completion of the sale and purchase agreement for the Acquisition ("Agreement").

On 1st April 2005, each of Thong Sia Company (Singapore) Private Limited and Thong Sia Sdn Bhd entered into a written agreement with Vision Pro Group to record the terms of their respective continual purchases of optical products from Vision Pro Group. Such agreements are effective from 1st April 2005 up to and including 31st March 2008. Under the said agreements, each of Thong Sia Company (Singapore) Private Limited and Thong Sia Sdn Bhd agrees to purchase optical products from Vision Pro Group on terms no less favourable than those offered by the Vision Pro Group to other third parties and with payment terms of 90 days upon receipt of invoice.

The Company determined the maximum aggregate annual consideration for the continual purchases of optical products by Thong Sia Company (Singapore) Private Limited and Thong Sia Sdn Bhd at HK$2.00 million, HK$2.50 million and HK$2.75 million for each of the three financial years ending 31st March 2008 (the "Caps"). If such Caps are exceeded, the Company will re-comply with the requirements, where applicable, under Rule 14A.35 of the Listing Rules. The Caps were determined on the following basis:

(a) historical transaction amounts for the period from 1st January 2002 up to and including 31st December 2004;

(b) Vision Pro Group's current status of new licensed products development; and

(c) the estimates by Thong Sia Company (Singapore) Private Limited and Thong Sia Sdn Bhd of the pace of growth and the size of the sales of new licensed products to be purchased from Vision Pro Group.

The total purchases during the period from 1st October 2005 to 31st March 2006 amounted to HK$798,000.

**CONNECTED TRANSACTIONS** *(Continued)*

The independent non-executive directors had reviewed the transactions as mentioned above and confirmed that the transactions were:

(a) entered into in the usual and ordinary course of business of the Company;

(b) conducted either (i) on normal commercial terms or (ii) where there is no available comparison on terms no less favourable to the Company than terms available to independent third parties; and

(c) entered into in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company had performed certain agreed upon procedures on the above transactions and confirmed that the transactions:

(a) had received the approval of the directors of the Company;

(b) had been entered into on terms no less favourable than terms available to or from independent third parties; and

(c) had not exceeded the Caps.

(3) (A) The Group entered into a tenancy agreement with International Optical Manufacturing Company Limited ("IOM") to lease certain units in Stelux House to IOM for a period from 15th August 2004 to 31st March 2007 at a monthly rental of HK$85,536. The Group also entered into a tenancy agreement with Yee Hing to lease certain units in Stelux House to Yee Hing for a period from 15th August 2004 to 31st March 2007 at a monthly rental of HK$49,450. These transactions ceased when the Group disposed of its interest in Stelux House through the disposal of the entire issued share capital of a wholly-owned subsidiary company of the Group to Yee Hing on 30th March 2006.

(B) Upon completion of the disposal of Stelux House, the Group entered into tenancy agreements ("Tenancy Agreements") with Stelux Holdings Limited ("SHL"), the landlord of Stelux House and a wholly-owned subsidiary company of Yee Hing, to lease certain units and carparking spaces in Stelux House for the period from 30th March 2006 to 31st March 2008 at an aggregated monthly rental of HK$373,000. The Group determined the aggregated annual cap amount for these transactions for each of the three financial years ending 31st March 2008 at HK$4,500,000.

(C) In addition, Stelux Properties Agency Limited ("SPAL"), a wholly-owned subsidiary of the Company, entered into an agreement with SHL ("Services Agreement") for the provision of the following services ("Services"):

(a) Contract administration with respect to contracts entered into between SHL and third parties from time to time;

(b) property agency liaison and tenancy management;

(c) management of the property manager of Stelux House; and

(d) other miscellaneous administrative services.

Duration of the Services Agreement is from 30th March 2006 to 31st March 2008. The fee was agreed at HK$170,000 per calendar month (in the first year during the duration of the Services Agreement) payable in advance on the first day of each calendar month. The annual fee (other than that in the first year during the duration of the Services Agreement) is subject to increment with reference to the actual increase in costs incurred by SPAL relating to the Services by not more than 10% each year. The annual fee for the first year under the Services Agreement was based on the total annual costs of approximately HK$2,000,000 to be incurred by the Group in providing the Services. The Company determined the annual cap amount for the transactions under the Services Agreement at HK$2,100,000, HK$2,300,000 and HK$2,500,000 for each of the three financial years ending 31st March 2008.

**CONNECTED TRANSACTIONS** *(Continued)*

The Tenancy Agreements and the Services Agreement were entered into on normal commercial terms as stated in the circular to the shareholders dated 24th February 2006. Since SHL is a wholly-owned subsidiary of Yee Hing, it is a connected person of the Company by virtue of the fact that it is an associate of Yee Hing, which is a connected person of the Company. As such, the transactions are classified as continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

The following connected transactions in respect of leasing of premises were arranged during the year after the Acquisition.

(D) Thong Sia Company (Singapore) Private Limited has been leasing Units #01-01 and #04-00 of Thongsia Building, No.30 Bideford Road, Singapore (the "SIN Properties") from Mengiwa Private Limited ("Mengiwa") as its current office, showroom, warehouse and service centre for about 15 years.

Since the Estate holds more than a 30% equity interest in Mengiwa, Mengiwa is a connected person (as defined in the Listing Rules) of the Group by virtue of the fact that it is an associate of the Estate which is a connected person (as defined in the Listing Rules) of the Group. Since Mengiwa is a connected person (as defined in the Listing Rules) of the Company and Thong Sia Company (Singapore) Private Limited became a wholly-owned subsidiary of the Company upon completion of the Agreement, the continual leasing of the SIN Properties by Thong Sia Company (Singapore) Private Limited from Mengiwa after completion of the Agreement constitutes continuing connected transaction for the Company.

On 3rd August 2005, Thong Sia Company (Singapore) Private Limited, as tenant entered into a tenancy agreement (the "TSSIN Tenancy Agreement") with Mengiwa as landlord in respect of the lease of the SIN Properties for a period of 3 years from 1st July 2005 up to and including 30th June 2008. The monthly rent and the management and air-conditioning charges under the TSSIN Tenancy Agreement were determined with reference to those payable by the other tenants of Thongsia Building and the floor size of the SIN Properties. The rent payable by Thong Sia Company (Singapore) Private Limited is in line with the prevailing market rent based on the independent valuations by Jones Lang Lasalle made on 15th July 2005. The aggregate sum of the annual rent, management fee and air-conditioning charge payable by Thong Sia Company (Singapore) Private Limited under the TSSIN Tenancy Agreement is S$420,000.

(E) Thong Sia Watch Company Limited had been leasing Units A2, E2 and E3 on 2nd floor of Star House, No.3 Salisbury Road, Tsimshatsui, Kowloon, Hong Kong (the "HK Properties") from Thong Sia Investment Company Limited ("TSICL") as its current office and service centre since 2002.

Since TSICL is a wholly-owned subsidiary of TSCL which is a connected person (as defined in the Listing Rules) of the Group and Thong Sia Watch Company Limited became a 96.0% owned subsidiary of the Company upon completion of the Agreement, the continual leasing of the HK Properties by Thong Sia Watch Company Limited from TSICL after completion of the Agreement constitutes continuing connected transaction for the Company.

On 20th July 2005, Thong Sia Watch Company Limited, as tenant entered into a tenancy agreement (the "TSHK Tenancy Agreement") with TSICL as landlord in respect of the lease of the HK Properties for a period of 3 years from 1st July 2005 up to and including 30th June 2008. The monthly rent under the TSHK Tenancy Agreement was determined with reference to those payable by the other tenants of Star House and the floor size of the HK Properties. The rent payable by Thong Sia Watch Company Limited for the HK Properties was in line with the open market rent based on the independent valuations by C S Surveyors made on 30th June 2005. The annual rent payable by Thong Sia Watch Company Limited under the TSHK Tenancy Agreement was HK$1,428,960. This transaction ceased when TSICL disposed of its interest in the HK Properties to an independent third party in November 2005.

**CONNECTED TRANSACTIONS** *(Continued)*

(F) On 19th July 2006, the Directors of the Company announced that Thong Sia Watch Company Limited entered into a tenancy agreement for the lease of office premises and carparking spaces at Stelux House from Mengiwa Property Investment Limited (formerly known as Stelux Holdings Limited), the owner of Stelux House and a wholly owned indirect subsidiary of Yee Hing since 30th March 2006.

The tenancy agreement dated 19th July 2006 for office premises and 3 carparking spaces is for a term of two years eight months and thirteen days from 19th July 2006 to 31st March 2009 at a monthly rental of HK$139,790. An independent written valuation conducted on 30th June 2006 of the office premises leased show the current open market rental value on a monthly basis of the office premises leased under the tenancy agreement is HK$130,340 exclusive of rates, government rent, management fees and other outgoings. The rental for the office premises under the tenancy agreement was determined by reference to the current open market rental values and the rental of HK$3,150 per carpark space per month inclusive of rates, government rent and management charges is the normal rate Mengiwa Property Investment Limited charges other carpark users at Stelux House. The independent written valuation above also confirms that the market rent for 3 carpark spaces is HK$9,450 per month.

Yee Hing ultimately holds approximately 60% of the issued share capital of the Company. Mengiwa Property Investment Limited is a wholly owned indirect subsidiary of Yee Hing. Therefore, the tenancy agreement constitutes a continuing connected transaction of the Company under the Listing Rules (the "Continuing Connected Transaction").

The Company determined the maximum aggregate annual consideration for the Continuing Connected Transaction for each of the periods, from 19th July 2006 up to and including 31st March 2007; from 1st April 2007 up to and including 31st March 2008; and from 1st April 2008 up to and including 31st March 2009 at the approximate rental payable by the tenant, Thong Sia Watch Company Limited to the Landlord, Mengiwa Property Investment Limited, under the terms of the tenancy agreement. Therefore, the maximum aggregate annual consideration for the Continuing Connected Transaction for the period from 19th July 2006 up to and including 31st March 2007 is HK$1,100,000; the maximum aggregate annual consideration for the Continuing Connected Transaction for the period from 1st April 2007 up to and including 31st March 2008 is HK$1,600,000; and the maximum aggregate annual consideration for the Continuing Connected Transaction for the period from 1st April 2008 up to and including 31st March 2009 is HK$1,600,000.

The Continuing Connected Transaction is based on normal commercial terms agreed after arms' length negotiations between the parties and is in the ordinary and usual course of business of the Company. The Continuing Connected Transaction is subject to the annual review, reporting and announcement requirements respectively under Rules 14A.37 to 14A.41, and Rules 14A.45 to 14A.47 of the Listing Rules and exempt from independent shareholders' approval.

**CONNECTED TRANSACTIONS** *(Continued)*

(4) The followings are the provision of the outstanding loans and the SHL guarantee in respect thereof and provision of the corporate guarantee and mortgage assets and the SHL indemnity in respect thereof following the Acquisition.

(A) TSCL and Mengiwa have granted loans on a non-secured basis to Thong Sia Company (Singapore) Private Limited over the past 3 years to help finance its general funding needs. Based on the audited accounts of Thong Sia Company (Singapore) Private Limited as at 31st December 2004, the loans granted by TSCL and Mengiwa in aggregate amounted to S$9,905,518 (equivalent to approximately HK$47,150,266) ("Outstanding Loans") and Thong Sia Company (Singapore) Private Limited had a net deficit of S$5,112,929 (equivalent to approximately negative HK$24,337,542) as at 31st December 2004. As a result of the negotiations with respect to the Acquisition, Yee Hing has procured each of TSCL and Mengiwa to continue to provide its portion of the Outstanding Loans to Thong Sia Company (Singapore) Private Limited for a period of not more than 18 months after completion of the Agreement on a non-secured basis on the condition that SHL guarantees the repayment obligations of Thong Sia Company (Singapore) Private Limited in respect of the Outstanding Loans. Within the said 18-month period, the Group expects to be able to arrange appropriate financing through its internal resources to repay the Outstanding Loans. There was no loan agreement between Thong Sia Company (Singapore) Private Limited and each of TSCL and Mengiwa regarding the Outstanding Loans. In connection with the Agreement, the terms of the provision of the HK$ portion and the S$ portion of the Outstanding Loans are recorded in the TSCL Agreement and the Mengiwa Agreement respectively as set out in the paragraphs below.

(B) Mengiwa has been providing, for nil consideration, corporate guarantee and mortgage assets (the "Corporate Guarantee and Mortgage Assets") to a third party bank in Singapore to support the general banking facilities of S$2.0 million (equivalent to approximately HK$9,520,000) overdraft facilities and S$2.0 million (equivalent to approximately HK$9,520,000) revolving loan facilities both granted by such third party bank to Thong Sia Company (Singapore) Private Limited since 1997 to help finance its general funding needs. As a result of the negotiations with regard to the Acquisition, Yee Hing has procured Mengiwa to continue to provide the Corporate Guarantee and Mortgage Assets for a period of not more than 18 months after completion of the Agreement to support the said existing banking facilities on the condition that SHL indemnifies Mengiwa for all its liabilities under the Corporate Guarantee and Mortgage Assets. Thong Sia Company (Singapore) Private Limited has agreed to release the Corporate Guarantee and Mortgage Assets within 18 months after completion of the Agreement. There was no agreement between Thong Sia Company (Singapore) Private Limited and Mengiwa regarding such provision of the Corporate Guarantee and Mortgage Assets by Mengiwa to support the said existing banking facilities. In connection with the Agreement, the terms of the provision of the Corporate Guarantee and Mortgage Assets are recorded in the Mengiwa Agreement.

**Summary of the TSCL Agreement:**

***Date***

10th August 2005

***Parties***

TSCL as lender of the HK$ portion of the Outstanding Loans; Thong Sia Company (Singapore) Private Limited as borrower of the HK$ portion of the Outstanding Loans; and SHL as guarantor for the repayment obligations of Thong Sia Company (Singapore) Private Limited with respect to the HK$ portion of the Outstanding Loans owed to TSCL.

**CONNECTED TRANSACTIONS** *(Continued)*

***Subject matter***

In connection with the Agreement, TSCL agreed to continue to provide its HK$ portion of the Outstanding Loans to Thong Sia Company (Singapore) Private Limited for a period of not more than 18 months after completion of the Agreement on a non-secured basis. The TSCL Agreement sets out the terms of the provision of such HK$ portion of the Outstanding Loans by TSCL as set out in the paragraph above and pursuant to which SHL agreed to guarantee the repayment obligations of Thong Sia Company (Singapore) Private Limited with respect to the HK$ portion of the Outstanding Loans owed to TSCL. If Thong Sia Company (Singapore) Private Limited defaults in making the repayment of the HK$ portion of the Outstanding Loans within 18 months after completion of the Agreement, TSCL will have recourse to repayment by SHL of the outstanding HK$ portion of Outstanding Loans owed to TSCL pursuant to the TSCL Agreement.

***Duration***

The TSCL Agreement became effective immediately after completion of the Agreement until the HK$ portion of Outstanding Loans has been fully repaid.

**Summary of the Mengiwa Agreement:**

***Date***

10th August 2005

***Parties***

Mengiwa as lender of the S$ portion of the Outstanding Loans and provider of the Corporate Guarantee and Mortgage Assets; Thong Sia Company (Singapore) Private Limited as borrower of the S$ portion of the Outstanding Loans and beneficiary of the Corporate Guarantee and Mortgage Assets; and SHL as guarantor for the repayment obligations of Thong Sia Company (Singapore) Private Limited in respect of the S$ portion of the Outstanding Loans owed to Mengiwa and as indemnifier to indemnify Mengiwa for all its liabilities under the Corporate Guarantee and Mortgage Assets.

***Subject matter***

In connection with the Agreement, Mengiwa agreed to continue to (i) provide its S$ portion of the Outstanding Loans to Thong Sia Company (Singapore) Private Limited on a non-secured basis; and (ii) provide the Corporate Guarantee and Mortgage Assets to support the aforesaid banking facilities of Thong Sia Company (Singapore) Private Limited for nil consideration, both for a period of not more than 18 months after completion of the Agreement. The Mengiwa Agreement sets out the terms of provision of such S$ portion of the Outstanding Loans by Mengiwa as set out in the paragraph above and the provision of the Corporate Guarantee and Mortgage Assets by Mengiwa as set out in the paragraph above. Pursuant to the Mengiwa Agreement, SHL agreed to (i) guarantee the repayment obligations of Thong Sia Company (Singapore) Private Limited with respect to the S$ portion of the Outstanding Loans owed to Mengiwa; and (ii) indemnify (the "SHL Indemnity") Mengiwa for all its liabilities under the Corporate Guarantee and Mortgage Assets. If Thong Sia Company (Singapore) Private Limited defaults in making the repayment of the S$ portion of the Outstanding Loans within 18 months after completion of the Agreement, Mengiwa will have recourse to repayment by SHL of the outstanding S$ portion of Outstanding Loans owed to Mengiwa pursuant to the Mengiwa Agreement. Pursuant to the Mengiwa Agreement, SHL indemnifies Mengiwa against all actions, claims, demands, liabilities, losses, damages, costs, charges and expenses of whatever nature which may result or which Mengiwa may sustain, suffer or incur in connection with or arising in any way whatsoever out of the Corporate Guarantee and Mortgage Assets, and to pay to Mengiwa all moneys and liabilities which Mengiwa shall pay or become liable to pay or sustain, suffer or incur under or by reason of or in connection with the Corporate Guarantee and Mortgage Assets.

**CONNECTED TRANSACTIONS** *(Continued)*

***Duration***

The Mengiwa Agreement became effective immediately after completion of the Agreement until the S$ portion of Outstanding Loans has been fully repaid and the Corporate Guarantee and Mortgage Assets provided by Mengiwa to support the aforesaid banking facilities of Thong Sia Company (Singapore) Pte Limited have been released.

SHL was a former indirect wholly-owned subsidiary of the Company. TSCL and Mengiwa are connected persons (as defined in the Listing Rules) of the Group. As such, the provision of Outstanding Loans by TSCL and Mengiwa to Thong Sia Company (Singapore) Private Limited (together with the guarantees provided by SHL to TSCL and Mengiwa respectively with respect to the HK$ and S$ portions of the Outstanding Loans in an aggregate amount of approximately HK$42,150,266 (collectively the "SHL Guarantee")) and the provision of the Corporate Guarantee and Mortgage Assets by Mengiwa with respect to the overdraft and revolving loan facilities of an aggregate amount of approximately HK$19,040,000 granted by a third party bank to Thong Sia Company (Singapore) Private Limited (together with the SHL Indemnity provided by SHL to Mengiwa in respect thereof) are financial assistances (according to Rule 14A.10 of the Listing Rules) provided by connected persons (as defined in the Listing Rules) of the Group where security over the assets of the Group (the SHL Guarantee and the SHL Indemnity) is granted in respect of such financial assistances and constitute connected transactions for the Company according to Rule 14A.13 of the Listing Rules upon completion of the Agreement. Since the Estate holds more than 30% equity interests in each of TSCL and Mengiwa and pursuant to Rule 14A.26 of the Listing Rules, the amount of the Outstanding Loans and the Corporate Guarantee and Mortgage Assets are aggregated.

All the above mentioned guarantee and indemnity provided by SHL has been undertaken by another wholly-owned subsidiary of the Company before the completion of the disposal of Stelux House.

**AUDITORS**

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**Joseph C. C. Wong**
*Vice Chairman and Chief Executive Officer*

Hong Kong, 19th July 2006

# REPORT OF THE AUDITORS

**TO THE SHAREHOLDERS OF**
**STELUX HOLDINGS INTERNATIONAL LIMITED**
*(Incorporated in Bermuda with limited liability)*

We have audited the accounts on pages 22 to 78 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**Respective responsibilities of directors and auditors**

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**Basis of opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st March 2006 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 19th July 2006

## CONSOLIDATED PROFIT & LOSS ACCOUNT

*For the year ended 31st March 2006*

| | Note | 2006 HK$'000 | Restated 2005 HK$'000 |
|---|---|---|---|
| **Continuing operations:** | | | |
| Revenues | 5 | **1,527,240** | 1,324,785 |
| Cost of sales | | **(578,111)** | (464,248) |
| Gross profit | | **949,129** | 860,537 |
| Fair value gains of investment properties | | **58,224** | 154,330 |
| Compensation received from arbitration | 7 | **38,489** | – |
| Other gains | 6 | **89,343** | 23,293 |
| Selling expenses | | **(688,610)** | (573,303) |
| General and administrative expenses | | **(178,445)** | (161,825) |
| Other operating expenses | | **(52,123)** | (52,402) |
| Operating profit | | **216,007** | 250,630 |
| Finance costs | 11 | **(32,596)** | (18,766) |
| Profit before taxation | 9 | **183,411** | 231,864 |
| Taxation credit/(charge) | 12 | **12,090** | (36,082) |
| Profit for the year from continuing operations | | **195,501** | 195,782 |
| **Discontinued operation:** | | | |
| Loss from discontinued operation | 15 | **(7,662)** | (24,762) |
| Profit for the year | | **187,839** | 171,020 |
| Attributable to: | | | |
| Equity holders of the Company | | | |
| – Continuing operations | | **195,101** | 195,782 |
| – Discontinued operation | | **(7,662)** | (24,762) |
| Minority interests – continuing operations | | **400** | – |
| | | **187,839** | 171,020 |
| Dividends | 14 | **511,821** | 33,297 |
| | | ***HK cents*** | *HK cents* |
| Earnings per share from continuing operations | 16 | | |
| – Basic | | **20.51** | 20.67 |
| – Diluted | | **20.51** | 20.62 |
| Loss per share from discontinued operation | 16 | | |
| – Basic | | **(0.80)** | (2.61) |
| – Diluted | | **(0.80)** | (2.61) |

## CONSOLIDATED BALANCE SHEET

*As at 31st March 2006*

| | Note | **2006** **HK$'000** | Restated 2005 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Non-current assets | | | |
| Property, plant and equipment | *17* | **130,380** | 154,670 |
| Investment properties | *18* | **34,340** | 712,350 |
| Prepayment of lease premium | *19* | **146,877** | 162,830 |
| Intangible assets | *21* | **22,036** | 17,052 |
| Deferred tax assets | *33* | **21,840** | 32,875 |
| Investment securities | *22* | **–** | 4,299 |
| Available-for-sale financial assets | *23* | **10,920** | – |
| | | **366,393** | 1,084,076 |
| Current assets | | | |
| Stocks | *24* | **456,827** | 388,849 |
| Debtors and prepayments | *25* | **303,926** | 292,830 |
| Marketable securities | *26* | **–** | 83 |
| Financial assets at fair value through profit or loss | *27* | **90,851** | – |
| Bank balances and cash | *28* | **142,858** | 64,779 |
| | | **994,462** | 746,541 |
| Total assets | | **1,360,855** | 1,830,617 |
| **EQUITY** | | | |
| Capital and reserves attributable to the equity holders of the Company | | | |
| Share capital | *29* | **95,134** | 95,134 |
| Reserves | *30* | **525,873** | 844,529 |
| Proposed final dividend | *30* | **26,638** | 23,784 |
| Shareholders' funds | | **647,645** | 963,447 |
| Minority interests | | **6,777** | 2,494 |
| Total equity | | **654,422** | 965,941 |
| **LIABILITIES** | | | |
| Non-current liabilities | | | |
| Deferred tax liabilities | *33* | **3,486** | 47,985 |
| Borrowings | *32* | **35,976** | 279,719 |
| | | **39,462** | 327,704 |
| Current liabilities | | | |
| Creditors and accruals | *31* | **311,120** | 284,436 |
| Taxation payable | | **26,687** | 15,770 |
| Current portion of borrowings | *32* | **329,164** | 236,766 |
| | | **666,971** | 536,972 |
| Total liabilities | | **706,433** | 864,676 |
| Total equity and liabilities | | **1,360,855** | 1,830,617 |
| Net current assets | | **327,491** | 209,569 |
| Total assets less current liabilities | | **693,884** | 1,293,645 |

## BALANCE SHEET

*As at 31st March 2006*

| | Note | 2006 HK$'000 | Restated 2005 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Non-current assets | | | |
| Subsidiaries | 20 | – | 495,150 |
| Current assets | | | |
| Amount due from subsidiaries | 20 | **583,674** | 116,155 |
| Other debtor and prepayments | | **3,665** | 9 |
| Bank balances and cash | 28 | **45** | 10 |
| | | **587,384** | 116,174 |
| Total assets | | **587,384** | 611,324 |
| **EQUITY** | | | |
| Capital and reserves attributable to the Company's equity holders | | | |
| Share capital | 29 | **95,134** | 95,134 |
| Reserves | 30 | **456,299** | 328,962 |
| Proposed final dividend | 30 | **26,638** | 23,784 |
| Total equity | | **578,071** | 447,880 |
| **LIABILITIES** | | | |
| Current liabilities | | | |
| Amounts due to subsidiaries | 20 | – | 161,761 |
| Other creditors and accruals | | **9,313** | 1,683 |
| Total liabilities | | **9,313** | 163,444 |
| Total equity and liabilities | | **587,384** | 611,324 |
| Net current assets/(liabilities) | | **578,071** | (47,270) |
| Total assets less current liabilities | | **578,071** | 447,880 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31st March 2006*

| | Attributable to equity holders of the Company | | | |
|---|---|---|---|---|
| | **Share capital** *(Note 29)* *HK$'000* | **Reserves** *(Note 30)* *HK$'000* | **Minority interests** *HK$'000* | **Total** *HK$'000* |
| At 1st April 2004 | 94,334 | 728,135 | 1,606 | 824,075 |
| Exchange difference | – | (3,646) | 888 | (2,758) |
| Issue of shares | – | 1,184 | – | 1,184 |
| Profit for the year | – | 171,020 | – | 171,020 |
| Dividends paid | – | (28,380) | – | (28,380) |
| Issue of shares on exercise of share options | 800 | – | – | 800 |
| At 31st March 2005 | 95,134 | 868,313 | 2,494 | 965,941 |
| At 1st April 2005, as previously reported | 95,134 | 868,313 | 2,494 | 965,941 |
| Opening adjustment for adoption of HKAS 39 *(note (2)(a)(v))* | – | 7,201 | – | 7,201 |
| At 1st April 2005, as restated | 95,134 | 875,514 | 2,494 | 973,142 |
| Minority interest – acquisition of subsidiaries | – | – | 3,873 | 3,873 |
| Exchange difference | – | (895) | 10 | (885) |
| Revaluation of available-for-sale financial assets | – | (580) | – | (580) |
| Profit for the year | – | 187,439 | 400 | 187,839 |
| Dividends paid | – | (508,967) | – | (508,967) |
| At 31st March 2006 | 95,134 | 552,511 | 6,777 | 654,422 |

# CONSOLIDATED CASH FLOW STATEMENT

*For the year ended 31st March 2006*

| | Note | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Cash generated from operations | 34(a) | 129,360 | 143,425 |
| Interest paid | | (32,570) | (18,620) |
| Hong Kong profits tax paid | | (2,021) | (312) |
| Hong Kong profits tax refunded | | 22 | 19 |
| Overseas profits tax paid | | (10,228) | (8,040) |
| Overseas tax refunded | | 20 | – |
| Net cash from operating activities | | 84,583 | 116,472 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | (62,643) | (46,402) |
| Acquisition for subsidiaries | 38 | (29,103) | – |
| Prepayment of lease premium | | (10,581) | (5,649) |
| Proceeds from sale of property, plant and equipment | | 1,319 | 261 |
| Proceeds from disposal of investment properties | | 450 | – |
| Proceeds from disposal of prepayment of lease premium | | 296 | 863 |
| Net proceeds from disposal of subsidiaries | 34(b) | 807,804 | – |
| Interest received | | 2,091 | 2,657 |
| Dividends received | | 820 | 1,195 |
| Net cash from/(used in) investing activities | | 710,453 | (47,075) |
| Cash flows from financing activities | | | |
| Drawdown of bank loans | | 189,682 | 271,963 |
| Repayment of bank loans | | (389,459) | (276,379) |
| Issue of shares | | – | 1,984 |
| Capital element of finance lease payments | | (296) | (404) |
| Repayment of loans from related companies | | (11,580) | (13,000) |
| Repayment of loan from a shareholder | | – | (3,892) |
| Repayment of loan from a director | | (8,648) | (13,444) |
| Dividends paid | | (508,967) | (28,380) |
| Increase in minority interests | | – | 883 |
| New loans from a shareholder | | – | 8,648 |
| Net cash used in financing activities | | (729,268) | (52,021) |
| Net increase in cash and cash equivalents | | 65,768 | 17,376 |
| Cash and cash equivalents at beginning of year | | 50,209 | 32,833 |
| Cash and cash equivalents at end of year | | 115,977 | 50,209 |
| Analysis of the balances of cash and cash equivalents | | | |
| Cash and bank balances | | 142,858 | 64,779 |
| Bank overdrafts | | (26,881) | (14,570) |
| | | 115,977 | 50,209 |

1. **General information**

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are shown on pages 79 to 83.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton, HM12, Bermuda.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

The accounts are presented in thousand of units of Hong Kong dollars (HK'000), unless otherwise stated. These accounts have been approved by the Board of Directors on 19th July 2006.

2. **Summary of significant accounting policies**

The principal accounting policies applied in the preparation of the accounts are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

(a) **Basis of preparation**

The accounts of the Group has been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRS"). They have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets at fair value through profit or loss and investment properties, which are carried at fair value.

The preparation of accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the accounts, are disclosed in note 4.

In the year beginning 1st April 2004, the Group adopted Hong Kong Accounting Standard No. 40 "Investment Property" ("HKAS 40") and Hong Kong Accounting Standard Interpretation No. 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" ("HKAS-Int 21").

The adoption of HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values of investment properties are recorded in the profit and loss account. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the profit and loss account. Any subsequent increases were credited to the profit and loss account up to the amount previously charged.

The adoption of revised HKAS-Int 21 has resulted in a change of accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would result from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

## 2. Summary of significant accounting policies *(Continued)*

### (a) Basis of preparation *(Continued)*

In the year beginning on 1st April 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The comparatives of prior year have been amended as required, in accordance with the relevant requirements.

| | |
|---|---|
| HKAS 1 | Presentation of Financial Statements |
| HKAS 2 | Inventories |
| HKAS 7 | Cash Flow Statements |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 10 | Events after the Balance Sheet Date |
| HKAS 16 | Property, Plant and Equipment |
| HKAS 17 | Leases |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates |
| HKAS 23 | Borrowing Costs |
| HKAS 24 | Related Party Disclosures |
| HKAS 27 | Consolidated and Separate Financial Statements |
| HKAS 32 | Financial Instruments: Disclosures and Presentation |
| HKAS 33 | Earnings per Share |
| HKAS 36 | Impairment of Assets |
| HKAS 38 | Intangible Assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement |
| HKAS 39 Amendment | Transition and Initial Recognition of Financial Assets and Financial Liabilities |
| HKFRS 2 | Share-based Payments |
| HKFRS 3 | Business Combinations |
| HKFRS 4 | Insurance Contracts |
| HKFRS 5 | Non-current Assets held for sale and Discontinued Operations |

The following is a summary of material changes in principal accounting policies or presentation of the accounts as a result of the adoption of these new HKFRSs:

*(i) HKAS 1*

The adoption of HKAS 1 has affected the presentation of minority interests and other disclosures.

*(ii) HKAS 17*

The adoption of HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to prepayment of lease premium. The up-front prepayments made for the leasehold land and land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account. In prior years, the leasehold land was stated at cost less accumulated depreciation and accumulated impairment loss. HKAS 17 has been applied retrospectively.

*(iii) HKAS 21*

The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

2. **Summary of significant accounting policies** *(Continued)*

(a) **Basis of preparation** *(Continued)*

*(iv) HKAS 24*

HKAS 24 has affected the identification of related parties and some other related-party disclosures.

*(v) HKAS 32 & 39*

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Investment securities have been re-designated as available-for-sale financial assets and are stated at fair values. Changes in their fair values are accounted for as movements in reserve. The difference between the fair value of available-for-sale financial assets as at 1st April 2005 and the amounts carried forward under the previous accounting policy of the investment securities as at 1st April 2005 was credited to the opening investment revaluation reserve as at 1st April 2005. In prior years, investment securities were stated at cost less provision for diminution in value, other than temporary in nature.

Marketable securities have been re-designated as financial assets at fair value through profit or loss. In prior years, marketable securities were also stated at fair values and the net unrealised gains or losses arising from changes in market value of marketable securities were recognised in the profit and loss account.

In addition, the Group's discounted bills with recourse, which were previously treated as contingent liabilities, have been accounted for as collateralised bank advances prospectively on or after 1st April 2005, as the financial asset derecognition conditions as stipulated in HKAS 39 have not been fulfilled.

*(vi) HKAS 38*

In accordance with the requirements of HKAS 38, the Group has reassessed the useful lives of its intangible assets. The amortisation of trademarks has ceased prospectively on 1st April 2005 after the useful lives have been reassessed to be indefinite. Such trademarks are tested for impairment on an annual basis.

*(vii) HKFRS 2*

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31st March 2005, the provision of share options to employees did not result in an expense in the profit and loss account. Effective on 1st April 2005, the Group expenses the cost of share options in the profit and loss account.

*(viii) HKFRS 5*

The Group adopted HKFRS 5 from 1st April 2005 prospectively in accordance with the standard's provisions. The adoption of HKFRS 5 has resulted in substantial changes to the presentation and disclosures of the Group's Hipo.fant business as discontinued operation in the accounts. A discontinued operation is a component of the Group's business, the operation and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations. An operation is classified as discontinued when it is highly probable that the carrying amount of the assets and liabilities directly associated with the operation will be recovered through a sale transaction rather than through continuing use and the assets/liabilities are available for sale in their present condition, if earlier, or the Group has disposed of the operation. The assets directly associated with discontinued operation are stated at the lower of carrying amount and fair value less costs to sell.

2. **Summary of significant accounting policies** *(Continued)*

(a) **Basis of preparation** *(Continued)*

All changes in the accounting policies have been made in accordance with the respective transitional provisions. All standards adopted by the Group require retrospective application other than:

HKAS 39 – generally does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis.

HKFRS 2 – only retrospective application for all equity instruments granted after 7th November 2002 and not vested at 1st April 2005.

HKFRS 3 and HKAS 38 – prospectively after 1st April 2005.

HKFRS 5 – prospectively after 1st April 2005.

The following is a summary of effect of adopting these new HKFRSs on the accounts:

***Consolidated profit and loss account***

**For the year ended 31st March 2006**

| | Increase/(decrease) | | | |
|---|---|---|---|---|
| | **HKAS 17** | **HKAS 32 and 39** | **HKAS 38** | **Total** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| Other operating expenses | – | – | (2,298) | (2,298) |
| Profit attributable to equity holders of the Company | – | – | 2,298 | 2,298 |
| | ***HK cent*** | ***HK cent*** | ***HK cent*** | ***HK cent*** |
| Earnings per share | – | – | 0.24 | 0.24 |

There is no material impact of adopting these new HKFRSs on the consolidated profit and loss account for the year ended 31st March 2005.

## 2. Summary of significant accounting policies *(Continued)*

### (a) Basis of preparation *(Continued)*

***Consolidated balance sheet***

**As at 31st March 2006**

| | Increase/(decrease) | | | |
|---|---|---|---|---|
| | **HKAS 17** | **HKAS 32 and 39** | **HKAS 38** | **Total** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| Property, plant and equipment | **(146,877)** | **–** | **–** | **(146,877)** |
| Prepayment for lease premium | **146,877** | **–** | **–** | **146,877** |
| Intangible assets | **–** | **–** | **2,298** | **2,298** |
| Investment securities | **–** | **(4,299)** | **–** | **(4,299)** |
| Available-for-sale financial assets | **–** | **10,920** | **–** | **10,920** |
| Debtors and prepayments | **–** | **2,885** | **–** | **2,885** |
| Total assets | **–** | **9,506** | **2,298** | **11,804** |
| Current portion of borrowings | **–** | **2,885** | **–** | **2,885** |
| Total liabilities | **–** | **2,885** | **–** | **2,885** |
| Net assets | **–** | **6,621** | **2,298** | **8,919** |
| Retained profits | **–** | **–** | **2,298** | **2,298** |
| Other reserves | **–** | **6,621** | **–** | **6,621** |
| Shareholders' funds | **–** | **6,621** | **2,298** | **8,919** |

As at 31st March 2005

| | Increase/(decrease) |
|---|---|
| | HKAS 17 |
| | *HK$'000* |
| Property, plant and equipment | (162,830) |
| Prepayment for lease premium | 162,830 |
| Net assets | – |

## 2. Summary of significant accounting policies *(Continued)*

### (a) Basis of preparation *(Continued)*

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1st April 2006 or later periods but which the Group has not early adopted, are as follows:

| | |
|---|---|
| HKAS 1 (Amendment) | Capital disclosures |
| HKAS 39 (Amendment) | Cash flow hedges accounting of forecast intragroup transactions |
| HKAS 39 (Amendment) | The fair value option |
| HKAS 39 and HKFRS 4 (Amendment) | Financial guarantee contracts |
| HKFRS 6 | Exploration for and evaluation of mineral resources |
| HKFRS 7 | Financial Instruments disclosures |
| HKFRS Interpretation 4 | Determining whether an arrangement contains a lease |
| HKFRS Interpretation 5 | Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds |
| HKFRS Interpretation 6 | Liabilities arising from participating in a specific market – waste electrical and electronic equipment |

Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:

| | |
|---|---|
| HKAS 1 (Amendment) | Presentation of financial statements |
| HKAS 27 (Amendment) | Consolidated and separate financial statements |
| HKFRS 3 (Amendment) | Business combinations |

The Group has not early adopted of the above standards, interpretations and amendments in the accounts for the year ended 31st March 2006. The Group has already commenced an assessment of the related impact of the Group but is not yet in a position to state whether substantial changes to the Group's accounting policies and presentation of the accounts will be resulted.

**2. Summary of significant accounting policies** *(Continued)*

**(b) Consolidation**

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account (see note 2(g)).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investment in a subsidiary is stated at cost less accumulated impairment losses, if any. The results of subsidiary are accounted by the Company on the basis of dividend received and receivable.

All significant intra-group transactions and balances within the Group have been eliminated upon consolidation.

**(c) Transactions with minority interests**

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the profit and loss account. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

**(d) Foreign currency translation**

*(i) Functional and presentation currency*

The accounts are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

2. **Summary of significant accounting policies** *(Continued)*

(d) **Foreign currency translation** *(Continued)*

*(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary financial assets and liabilities, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

*(iii) Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognised as a component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences that were recorded in equity are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

**2. Summary of significant accounting policies** *(Continued)*

**(e) Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the profit and loss account during the financial year in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | Lesser of the unexpired lease term or 40 to 50 years |
| Equipment | 3 to 10 years |
| Furniture and fixtures | 3 to 15 years |
| Motor vehicles | 4 to 5 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the profit and loss account.

**(f) Investment properties**

Investment properties are properties held for long-term rental yields. Investment properties are carried at fair value, representing open market value determined annually by independent qualified valuers. Changes in fair values are recorded in the profit and loss account.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

**(g) Intangible assets**

*(i) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

*(ii) Trademarks*

Trademarks are shown at historical cost. Trademarks have indefinite useful life are tested for impairment on an annual basis (note 2(h)).

2. **Summary of significant accounting policies** *(Continued)*

**(h) Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

**(i) Financial assets**

Prior to 1st April 2005, the Group classified its investments in securities, other than subsidiaries, as non-trading investment securities and marketable securities.

Investment securities were stated at cost less provision for diminution in value other than temporary in nature.

Marketable securities were stated at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in market value of marketable securities were recognised in the profit and loss account. Profits or losses upon the disposals of marketable securities representing the difference between the net sales proceeds and the carrying amounts, were recognised in the profit and loss account as they arose.

From 1st April 2005 onwards, the Group classifies its investments in the following categories: loans and receivables, financial assets at fair value through profit or loss and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in debtors and prepayment in the balance sheet.

A financial asset is classified as fair value through profit or loss if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

**2. Summary of significant accounting policies** *(Continued)*

**(i) Financial assets** *(Continued)*

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit and loss account. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the profit and loss account in the year in which they arise. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account. Dividends on available-for-sale equity instruments are recognised in the profit and loss account when the Group's right to receive payments is established.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss account – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. Impairment testing of accounts receivable is described in note 2(k).

**(j) Stocks**

Stocks are stated at the lower of cost and net realisable value. Cost includes the cost of direct labour, materials and appropriate proportion of production overhead expenditure, and is calculated on the weighted average basis. Net realisable value is the anticipated sales proceeds less selling expenses.

**(k) Accounts receivable**

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of accounts receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the accounts receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

**(l) Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2. **Summary of significant accounting policies** *(Continued)*

**(m) Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (Treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes,) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

**(n) Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the year of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

**(o) Deferred taxation**

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

**(p) Employee benefits**

*(i) Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2. **Summary of significant accounting policies** *(Continued)*

(p) **Employee benefits** *(Continued)*

*(ii) Pension obligations*

The Group operates and participates in a number of defined contribution plans and a small defined benefit plan. The assets of the defined contribution plans are held separately from those of the Group in independently administered funds. The contributions are recognised as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(q) **Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. When the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(r) **Recognition of revenue**

Revenue is recognised when it is probable that economic benefits will accrue to the Group and when the revenue can be measured reliably on the following bases:

(i) invoiced value of goods net of discounts and allowance, when the goods are delivered to the customers;

(ii) rental income, on a straight-line basis over the lease term;

(iii) building management fee income, when the services are rendered;

(iv) dividend income, when the shareholder's right to receive payment is established; and

(v) interest income, in proportion to time, taking into account the principal outstanding and the effective interest rate applicable. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

## 2. Summary of significant accounting policies *(Continued)*

### (s) Leases

*(i) Operating lease*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the profit and loss account on a straight-line basis over the period of the lease.

*(ii) Finance lease*

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognised in the profit and loss account over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

### (t) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

### (u) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the year in which the dividends are approved by the Company's shareholders.

### (v) Insurance contract

Insurance contract is a contract under which one party (the insurer) accepts a significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

The Company shall assess at each reporting date whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment show that the carrying amount of its insurance liabilities is inadequate in the light of the estimated future cash flows, the entire deficiency shall be recognised in profit or loss.

## 3. Financial risk management

### (a) Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, interest rate risk, credit risk and liquidity risk.

*(i) Foreign exchange risk*

The Group operates in Hong Kong and certain overseas countries and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure.

*(ii) Interest rate risk*

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its bank loans. Bank loans at variable rates expose the Group to cash flow interest-rate risk. Details of the Group's bank borrowings are disclosed in note 32(a) below.

The Group has not used any interest rate swaps to hedge its exposure to cash flow interest rate risk.

*(iii) Credit risk*

The Group has no significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. Sales to retail customers are made in cash or via major credit cards.

*(iv) Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, management aims to maintain flexibility in funding by keeping committed credit lines available.

### (b) Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, deposits in approved financial institutions, accounts receivable; and financial liabilities including accounts payable, short-term borrowings, approximate their fair values due to their short maturities.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

**4. Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**(i) Net realisable value of stocks**

Net realisable value of stocks is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycles. Management will reassess the estimations by the balance sheet date.

**(ii) Impairment of accounts receivable**

The Group's management determines the provision for impairment of accounts receivable. This estimate is based on the credit history of its customers and the current market condition. Management reassesses the provision by each balance sheet date.

**(iii) Estimate of fair value of investment properties**

The valuation of investment properties is made on the basis of the "Market Value" adopted by the Hong Kong Institute of Surveyors ("HKIS"). It is performed in accordance with the "HKIS Valuation Standards on Properties" published by the HKIS, 'The RICS Appraisal and Valuation Standards' published by the Royal Institute of Chartered Surveyors ("RICS") and the 'International Valuation Standards' published by the International Valuation Standards Committee. The valuation is reviewed annually by external valuers. The Group's management will reassess the assumptions used by the external valuers by considering the information from a variety of sources including i) current prices in an active market for properties of different nature, condition or location, adjusted to reflect those differences; and ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices.

**(iv) Deferred taxation**

The Group's management determines the amount of deferred tax asset to be recognised by estimating the amount of future profit available to utilise the tax losses in the relevant tax jurisdiction and entity. The estimate is based on the projected profit in respective jurisdiction and entity and the Group uses its judgement to make assumptions that are mainly based on market conditions existing on balance sheet date. It could change as a result of the uncertainties in the market conditions.

**(v) Separation of prepayment of lease premium from property, plant and equipment**

The adoption of HKAS 17 has resulted in reclassification of leasehold land from property, plant and equipment to prepayment of lease premium. The valuation of prepayment of lease premium is performed by an external valuer by valuing the depreciated replacement cost of the buildings and then deducting the depreciated replacement cost of the buildings from the initial consideration paid for the leasehold land and the building.

## 5. Revenues

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Turnover | | |
| Sales of goods | **1,499,303** | 1,300,419 |
| Gross rental income | **27,937** | 24,366 |
| | **1,527,240** | 1,324,785 |

For the year ended 31st March 2005, dividend income from unlisted investments and interest income have been reclassified from turnover to other gains (note 6) to conform with the presentation of current year.

## 6 Other gains

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Building management fee income | **11,611** | 9,440 |
| Dividend income from unlisted investments | **820** | 1,195 |
| Interest income | **5,540** | 6,872 |
| Fair value gain on financial assets at fair value through profit or loss | **50,749** | – |
| Gain on disposal of subsidiaries *(note 34(b))* | **15,150** | – |
| Sundries | **5,473** | 5,786 |
| | **89,343** | 23,293 |

## 7. Compensation received from arbitration

The Group was entitled to counter-claim liquidated damages and other costs or losses from the contractor for Stelux House. The arbitrator awarded in favour of the Group in March 2004 and compensation received from the contractor of HK$30,080,000 was accordingly recognised in the consolidated profit and loss account for the year ended 31st March 2004.

In December 2004, the arbitrator awarded legal costs and interests in favour of the Group. The contractor filed an appeal but failed to overturn the arbitrator's award. After deducting other related costs, the net compensation received of HK$38,489,000 was recognised during the year ended 31st March 2006.

## 8. Segment information

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

In accordance with the Group's internal financial reporting policy, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

**8. Segment information** *(Continued)*

Unallocated items represent net corporate expenses or income. Segment assets consist primarily of property, plant and equipment, investment properties, prepayment of lease premium, stocks, debtors and prepayment and exclude deferred tax assets and bank balances and cash. Segment liabilities consist mainly of creditors and accruals and exclude provision for executive bonus, taxation payable, deferred tax liabilities, loans from a director and shareholders and corporate borrowings. Capital expenditure comprises additions to property, plant and equipment, investment properties and prepayment of lease premium.

In respect of geographical segment reporting, sales are based on location of its markets and customers. Total assets and capital expenditure are based on where the assets are located. Inter-segment sales are conducted at prices and terms mutually agreed amongst those business segments.

**Primary reporting format – business segments**

| | For the year ended 31st March 2006 | | | | | |
|---|---|---|---|---|---|---|
| | Continuing operations | | | | Discontinued operation | |
| | Retail and trading | | | | Retail and trading | |
| | Watch | Optical | Property | Sub-total | Hipo. Fant | Group Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenues | | | | | | |
| Gross segment | 1,024,947 | 474,356 | 38,876 | 1,538,179 | 90,748 | 1,628,927 |
| Inter-segment | – | – | (10,939) | (10,939) | – | (10,939) |
| | 1,024,947 | 474,356 | 27,937 | 1,527,240 | 90,748 | 1,617,988 |
| Segment results | 37,906 | 37,480 | 118,378 | 193,764 | (7,229) | 186,535 |
| Unallocated income | | | | 66,803 | – | 66,803 |
| Net corporate expenses | | | | (44,560) | – | (44,560) |
| Operating profit/(loss) | | | | 216,007 | (7,229) | 208,778 |
| Finance costs | | | | (32,596) | (353) | (32,949) |
| Profit/(loss) before taxation | | | | 183,411 | (7,582) | 175,829 |
| Taxation credit/(charge) | | | | 12,090 | (80) | 12,010 |
| Profit/(loss) after taxation | | | | 195,501 | (7,662) | 187,839 |

**8. Segment information** *(Continued)*

**Primary reporting format – business segments** *(Continued)*

| | As at 31st March 2006 | | | | | |
|---|---|---|---|---|---|---|
| | Continuing operations | | | | Discontinued operation | |
| | Retail and Trading | | Property | | Retail and trading *(note b)* | |
| | Watch | Optical | *(note a)* | Sub-total | Hipo. Fant | Group total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Segment assets | 707,993 | 199,596 | 182,075 | 1,089,664 | 2,090 | 1,091,754 |
| Unallocated assets | | | | 269,101 | – | 269,101 |
| Total assets | | | | 1,358,765 | 2,090 | 1,360,855 |
| Segment liabilities | 190,651 | 83,639 | 1,372 | 275,662 | 6,145 | 281,807 |
| Unallocated liabilities | | | | 424,626 | – | 424,626 |
| Total liabilities | | | | 700,288 | 6,145 | 706,433 |
| Capital expenditure | 32,727 | 39,772 | – | | 615 | |
| Depreciation | 30,136 | 16,817 | 2,058 | | 1,373 | |
| Amortisation of prepayment of lease premium | 3,056 | 2,376 | 3,306 | | – | |
| Fair value gains of investment properties | – | – | (58,224) | | – | |
| Loss/(gain) on disposal of property, plant and equipment | 633 | 152 | 8 | | (34) | |
| Write-down of stocks to net realisable value | 15,026 | 2,876 | – | | 3,856 | |
| Reversal of stock write-down | (12,248) | – | – | | (10,427) | |
| Impairment of debtors and bad debts written off | 6,060 | 16 | – | | – | |

*Notes:*

(a) Stelux House, which was included in the Property segment in 2005, was disposed of on 30th March 2006. Details of this disposal was disclosed in note 34(b).

(b) The assets and liabilities of discontinued operation represent rental deposit receivable from landlord, trading balance payable to suppliers and accrued salary and redundancy cost.

**8. Segment information** *(Continued)*

**Primary reporting format – business segments** *(Continued)*

| | For the year ended 31st March 2005 | | | | | |
|---|---|---|---|---|---|---|
| | Continuing operations | | | | Discontinued operation | |
| | Retail and trading | | | | Retail and trading | |
| | Watch | Optical | Property | Sub-total | Hipo. fant | Group total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenues | | | | | | |
| Gross segment | 914,248 | 386,172 | 35,021 | 1,335,441 | 88,719 | 1,424,160 |
| Inter-segment | – | – | (10,656) | (10,656) | – | (10,656) |
| | 914,248 | 386,172 | 24,365 | 1,324,785 | 88,719 | 1,413,504 |
| Segment results | 91,455 | 26,885 | 173,014 | 291,354 | (24,493) | 266,861 |
| Unallocated income | | | | 1,257 | – | 1,257 |
| Net corporate expenses | | | | (41,981) | – | (41,981) |
| Operating profit/(loss) | | | | 250,630 | (24,493) | 226,137 |
| Finance costs | | | | (18,766) | (269) | (19,035) |
| Profit/(loss) before taxation | | | | 231,864 | (24,762) | 207,102 |
| Taxation charge | | | | (36,082) | – | (36,082) |
| Profit/(loss) after taxation | | | | 195,782 | (24,762) | 171,020 |

## 8. Segment information *(Continued)*

**Primary reporting format – business segments** *(Continued)*

| | As at 31st March 2005 | | | | | |
|---|---|---|---|---|---|---|
| | Continuing operations | | | | Discontinued operation | |
| | Retail and trading | | | | Retail and trading | |
| | Watch | Optical | Property | Sub-total | Hipo. fant | Group total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Segment assets | 579,212 | 141,961 | 982,753 | 1,703,926 | 21,023 | 1,724,949 |
| Unallocated assets | | | | 105,668 | – | 105,668 |
| Total assets | | | | 1,809,594 | 21,023 | 1,830,617 |
| Segment liabilities | 162,396 | 67,475 | 26,954 | 256,825 | 5,946 | 262,771 |
| Unallocated liabilities | | | | 601,905 | – | 601,905 |
| Total liabilities | | | | 858,730 | 5,946 | 864,676 |
| Capital expenditure | 33,541 | 18,240 | 7 | | 511 | |
| Depreciation | 28,247 | 12,373 | 155 | | 3,233 | |
| Amortisation of prepayment of lease premium | 3,271 | 1,860 | 3,510 | | – | |
| Impairment of property, plant and equipment | – | – | – | | 1,162 | |
| Amortisation of trademarks | 2,378 | – | – | | – | |
| Fair value gains of investment properties | – | – | (154,330) | | – | |
| Loss on disposal of property, plant and equipment | 74 | – | – | | 22 | |
| Write-down of stocks to net realisable value | 18,765 | 2,541 | – | | 16,962 | |
| Impairment of debtors and bad debts written off | 539 | 15 | – | | – | |

**8. Segment information** *(Continued)*

**Secondary reporting format – geographical segments**

Continuing operations:

| | **As at and for the year ended 31 March 2006** | | | |
|---|---|---|---|---|
| | **Revenues** *HK$'000* | **Segment results** *HK$'000* | **Total assets** *HK$'000* | **Capital expenditure** *HK$'000* |
| Hong Kong | **817,271** | **149,840** | **707,246** | **26,456** |
| South East and Far East Asia | **551,289** | **62,184** | **530,132** | **37,943** |
| Europe | **91,988** | **(9,180)** | **49,791** | **2,210** |
| North America | **6,951** | **2,266** | **113** | **–** |
| Mainland China | **59,741** | **(11,346)** | **71,483** | **6,660** |
| | **1,527,240** | **193,764** | **1,358,765** | **73,269** |

| | As at and for the year ended 31st March 2005 | | | |
|---|---|---|---|---|
| | Revenues *HK$'000* | Segment results *HK$'000* | Total Assets *HK$'000* | Capital Expenditure *HK$'000* |
| Hong Kong | 693,234 | 214,251 | 1,325,558 | 9,995 |
| South East and Far East Asia | 409,981 | 55,821 | 346,856 | 34,935 |
| Europe | 168,005 | 14,981 | 72,667 | 2,888 |
| North America | 21,738 | 9,689 | 260 | – |
| Mainland China | 31,827 | (3,388) | 64,253 | 4,275 |
| | 1,324,785 | 291,354 | 1,809,594 | 52,093 |

Discontinued operation:

| | **As at and for the year ended 31 March 2006** | | | |
|---|---|---|---|---|
| | **Revenues** *HK$'000* | **Segment results** *HK$'000* | **Total assets** *HK$'000* | **Capital expenditure** *HK$'000* |
| Hong Kong | **84,938** | **(3,529)** | **2,074** | **615** |
| South East and Far East Asia | **1,164** | **6** | **16** | **–** |
| Mainland China | **4,646** | **(3,706)** | **–** | **–** |
| | **90,748** | **(7,229)** | **2,090** | **615** |

| | As at and for the year ended 31st March 2005 | | | |
|---|---|---|---|---|
| | Revenues *HK$'000* | Segment results *HK$'000* | Total Assets *HK$'000* | Capital Expenditure *HK$'000* |
| Hong Kong | 73,667 | (22,208) | 17,131 | 511 |
| South East and Far East Asia | 5,937 | (1,682) | 333 | – |
| Mainland China | 9,115 | (603) | 3,559 | – |
| | 88,719 | (24,493) | 21,023 | 511 |

## 9. Expenses by nature

Expenses included in arriving the profit/(loss) before taxation are analysed as follows:

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Continuing operations: | | |
| Cost of stocks sold | **578,111** | 464,248 |
| Amortisation of prepayment of lease premium | **8,738** | 8,641 |
| Depreciation of property, plant and equipment | | |
| – Owned | **49,944** | 43,092 |
| – Leased | **357** | 478 |
| Auditors' remuneration | **4,190** | 3,678 |
| Operating leases | | |
| – Buildings | **230,691** | 172,813 |
| – Machinery | **753** | 697 |
| Amortisation of trademarks | **–** | 2,378 |
| Outgoings in respect of investment properties | **3,970** | 2,629 |
| Loss on disposal of property, plant and equipment | **765** | 74 |
| Write-down of stocks to net realisable value | | |
| – adidas *(note a)* | **281** | 9,201 |
| – Others | **17,621** | 12,105 |
| Reversal of stock write downs | **(12,248)** | – |
| Impairment of debtors and bad debts written off | **7,396** | 554 |
| Donations | **67** | 2,890 |
| Employee benefits expenses *(note 10)* | **284,768** | 241,145 |
| Net exchange gains | **(5,210)** | (6,053) |

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Discontinued operation: | | |
| Cost of stocks sold | **53,304** | 36,359 |
| Depreciation of property, plant and equipment | | |
| – Owned | **1,338** | 3,163 |
| – Leased | **35** | 70 |
| Auditors' remuneration | **186** | 229 |
| Operating leases | | |
| – Buildings | **15,126** | 18,193 |
| (Gain)/loss on disposal of property, plant and equipment | **(34)** | 22 |
| Write-down of stocks to net realisable value | | |
| – Hipo.fant *(note b)* | **3,856** | 16,962 |
| Reversal of stock write downs | **(10,427)** | – |
| Impairment of property, plant and equipment | **–** | 1,162 |
| Donations | **1,412** | 281 |
| Employee benefits expenses *(note 10)* | **23,636** | 21,254 |
| Net exchange gains | **(191)** | (200) |

*Notes:*

(a) The licence in respect of adidas was terminated in December 2005 and the stocks were accordingly written down to their net realisable values.

(b) The Board has resolved on 14th July 2005 to close the Hipo.fant business and the stocks have been accordingly written down to their net realisable values.

## 10. Employee benefits expenses

| | 2006 | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Continuing operations: | | |
| Salaries and allowances | **270,337** | 223,444 |
| Pension contributions less forfeiture utilised | **7,449** | 12,009 |
| Unutilised annual leave | **437** | 425 |
| Social security costs | **4,210** | 2,974 |
| Other allowances | **2,335** | 2,293 |
| | **284,768** | 241,145 |
| Discontinued operation: | | |
| Salaries and allowances | **22,466** | 20,331 |
| Pension contributions less forfeiture utilised | **845** | 854 |
| Unutilised annual leave | **325** | – |
| Other allowances | **–** | 69 |
| | **23,636** | 21,254 |

### (a) Pensions – defined contribution plans

The Group operated under Occupation Retirement Scheme Ordinance up to 30th November 2000 for employees in Hong Kong. With effect from 1st December 2000, a mandatory provident fund ("MPF") scheme is set up which is available to eligible employees of the Group, including executive directors. Contributions to the MPF scheme by the Group and employees are calculated at rates specified in the rules of the MPF scheme. The assets of the MPF scheme are held separately from those of the Group in an independently administered fund.

Forfeited contributions totaling HK$3,171,000 for the year ended 31st March 2006 (2005: HK$680,000) arising from employees leaving the scheme, were utilised to offset contributions during the year. The MPF scheme cost charged to the consolidated profit and loss account represents contributions payable by the Company to the fund.

The Group also operates a number of defined contribution schemes, covering all the main territories (other than Hong Kong) in which it operates, the assets of which are held in trustee administered funds. Contributions to these schemes are calculated at rates ranging from 5%-13% of basic salaries.

The Group also contributes to employee retirement schemes established by municipal governments in respect of subsidiaries incorporated in Mainland China. The municipal governments undertake to assume the retirement benefit obligations of all existing and future retired employees of the Group. Contributions to these schemes are charged to the profit and loss account in the year to which the contributions relate.

**10. Employee benefits expenses** *(Continued)*

**(b) Emoluments of directors and senior management**

The remuneration of each director of the Company is set out below:

| Name | Fees | Basic salaries, allowances, and benefits in kind | Contributions to pensions plans | Discretionary Bonus *(note)* | Total |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| For the year ended 31st March 2005 | | | | | |
| Wong Chong Po | 100 | 1,395 | – | 920 | 2,415 |
| Joseph C. C. Wong | 80 | 2,703 | 67 | 2,762 | 5,612 |
| Chu Kai Wah, Anthony | 80 | 1,366 | 74 | 920 | 2,440 |
| Sakorn Kanjanapas | 80 | – | – | – | 80 |
| Lee Shu Chung, Stan | 80 | 1,375 | 75 | 920 | 2,450 |
| Wong Yuk Woon | 80 | 1,617 | 51 | 920 | 2,668 |
| Kwong Yiu Chung | 80 | – | – | – | 80 |
| Chu Chun Keung, Sydney | 80 | – | – | – | 80 |
| Wu Chun Sang | 100 | – | – | – | 100 |
| | 760 | 8,456 | 267 | 6,442 | 15,925 |
| **For the year ended 31st March 2006** | | | | | |
| Wong Chong Po | **100** | **1,395** | **–** | **1,859** | **3,354** |
| Joseph C. C. Wong | **80** | **2,850** | **64** | **5,576** | **8,570** |
| Chu Kai Wah, Anthony | **80** | **1,682** | **70** | **1,859** | **3,691** |
| Sakorn Kanjanapas | **80** | **–** | **–** | **–** | **80** |
| Lee Shu Chung, Stan | **80** | **1,682** | **71** | **1,859** | **3,692** |
| Wong Yuk Woon | **80** | **1,960** | **49** | **1,859** | **3,948** |
| Kwong Yiu Chung | **80** | **–** | **–** | **–** | **80** |
| Chu Chun Keung, Sydney | **27** | **–** | **–** | **–** | **27** |
| Wu Chun Sang | **100** | **–** | **–** | **–** | **100** |
| Wu Chi Man, Lawrence | **33** | **–** | **–** | **–** | **33** |
| | **740** | **9,569** | **254** | **13,012** | **23,575** |

During the year, none of the directors has waived their emoluments and no emoluments were paid by the Group to any of the directors of the Company as an inducement to join or upon joining the Group or as compensation of loss of office.

*Note:* Discretionary bonus represents the amount paid during the year.

**10. Employee benefits expenses** *(Continued)*

**(c) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year ended 31st March 2006 and 2005 included five directors, whose emoluments are reflected in the analysis presented above. Accordingly, there was no employee for the year ended 31st March 2006 and 2005 whose emoluments were among the five highest in the Group.

**11. Finance costs**

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest on bank loans and overdrafts wholly repayable within five years | **29,432** | 16,702 |
| Interest on other loans wholly repayable within five years | **3,112** | 2,029 |
| Interest on finance leases | **52** | 35 |
| | **32,596** | 18,766 |

**12. Taxation**

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the year ended 31st March 2006 (2005: 17.5%) less relief for available tax losses. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the territories in which the Group operates.

The amount of taxation credited/(charged) to the consolidated profit and loss account represents:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Continuing operations: | | |
| Current taxation | | |
| – Hong Kong profits tax | **(8,819)** | (56) |
| – Overseas profits tax | **(9,164)** | (10,777) |
| – Under provisions in respect of prior years | **(3,945)** | (1,654) |
| | **(21,928)** | (12,487) |
| Deferred taxation *(note 33)* | **34,018** | (23,595) |
| Taxation credit/(charge) | **12,090** | (36,082) |
| Discontinued operation: | | |
| Current taxation | | |
| – Overseas profits tax | **(45)** | – |
| Deferred taxation *(note 33)* | **(35)** | – |
| | **(80)** | – |

**12. Taxation** *(Continued)*

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the applicable tax rate, being the weighted average of rates prevailing in the territories in which the Group operates, is as follows:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit before taxation from continuing operations | **183,411** | 231,864 |
| Theoretical tax at weighted average rate of 18.48% (2005: 17.85%) | **(33,893)** | (41,378) |
| Income not subject to taxation | **5,790** | 4,792 |
| Expenses not deductible for taxation purpose | **(8,608)** | (8,890) |
| Recognition of temporary difference previously not recognised | **(4,330)** | (582) |
| Utilisation of previously unrecognised tax losses | **8,398** | 23,152 |
| Tax losses not recognised | **(7,106)** | (8,058) |
| Withholding tax | **(2,108)** | (4,469) |
| Release of deferred tax liability upon disposal of Stelux House | **56,432** | – |
| Under provision of profits tax in prior years | **(3,945)** | (1,654) |
| Others | **1,460** | 1,005 |
| Taxation credit/(charge) | **12,090** | (36,082) |

**13. Profit attributable to equity holders of the Company**

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK$639,158,000 (2005: Loss HK$3,560,000) for the year ended 31st March 2006.

**14. Dividends**

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interim, paid, of HK$0.01 (2005: HK$0.01) per ordinary share | **9,513** | 9,513 |
| Final, proposed, of HK$0.028 (2005: HK$0.025) per ordinary share | **26,638** | 23,784 |
| Special, paid, of HK$0.50 per ordinary share *(note)* | **475,670** | – |
| | **511,821** | 33,297 |

*Note:* The special dividend of HK$0.50 per ordinary share is declared pursuant to disposal of Stelux House, as disclosed in note 34(b), which is one of the prerequisite conditions for the completion of the disposal.

## 15. Discontinued operation

The Board has resolved on 14th July 2005 to close the Hipo.fant business. Such closure has been completed in March 2006 and an analysis of the result of the discontinued operation is as follows:

| | Note | **2006** | 2005 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| Revenues | | **90,748** | 88,719 |
| Cost of sales | | **(53,304)** | (36,359) |
| Gross profit | | **37,444** | 52,360 |
| Other gains | | **101** | 477 |
| Selling expenses | | **(41,603)** | (45,709) |
| General and administrative expenses | | **(11,715)** | (12,141) |
| Other operating income/(expenses) | | **8,544** | (19,480) |
| Operating loss | | **(7,229)** | (24,493) |
| Finance costs | | **(353)** | (269) |
| Loss before taxation | *9* | **(7,582)** | (24,762) |
| Taxation charge | | **(80)** | – |
| Loss for the year | | **(7,662)** | (24,762) |
| Operating cash flows | | **13,701** | 1,878 |
| Investing cash flows | | **382** | (510) |
| Financing cash flows | | **(3,652)** | (3,674) |
| Total cash flows | | **10,431** | (2,306) |

## 16. Earnings per share

### Basic

Basic earnings/(loss) per share is calculated by dividing the Group's profit/(loss) attributable to equity holders by the weighted average number of ordinary shares in issue during the year.

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Weighted average number of ordinary shares in issue (thousands) | **951,340** | 947,356 |
| Group's profit from continuing operations attributable to equity holders | **195,101** | 195,782 |
| Basic earnings per share from continuing operation (HK cents per share) | **20.51** | 20.67 |
| Loss from discontinued operation attributable to equity holders | **(7,662)** | (24,762) |
| Basic loss per share from discontinued operation (HK cents per share) | **(0.80)** | (2.61) |

### Diluted

The diluted earnings/(loss) per share is calculated by dividing the Group's profit/(loss) attributable to equity holders by the weighted average number of ordinary shares which is adjusted for the weighted average number of shares deemed to be issued at no consideration if all outstanding options had been exercised.

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Weighted average number of ordinary shares in issue (thousands) | **951,340** | 947,356 |
| – Adjustment for share options (thousands) | **–** | 2,175 |
| Weighted average number of ordinary shares for diluted earnings per share (thousands) | **951,340** | 949,531 |
| Group's profit from continuing operation attributable to equity holders | **195,101** | 195,782 |
| Diluted earnings per share from continuing operations (HK cents per share) | **20.51** | 20.62 |
| Loss from discontinued operation attributable to equity holders | **(7,662)** | (24,762) |
| Diluted loss per share from discontinued operation (HK cents per share) | **(0.80)** | (2.61) |

## 17. Property, plant and equipment

### Group

| | Buildings | Equipment and others | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Year ended 31st March 2005** | | | |
| Opening net book account | 85,224 | 69,987 | 155,211 |
| Additions | – | 46,955 | 46,955 |
| Impairment *(note c)* | – | (1,162) | (1,162) |
| Disposals | – | (357) | (357) |
| Depreciation | (2,297) | (44,506) | (46,803) |
| Exchange differences | 407 | 419 | 826 |
| Closing net book amount | 83,334 | 71,336 | 154,670 |
| **At 31st March 2005** | | | |
| Cost | 120,772 | 350,151 | 470,923 |
| Accumulated depreciation | (37,438) | (278,815) | (316,253) |
| Net book amount | 83,334 | 71,336 | 154,670 |
| **Year ended 31st March 2006** | | | |
| Opening net book account | 83,334 | 71,336 | 154,670 |
| Additions | – | 63,303 | 63,303 |
| Acquisition of subsidiaries *(note 38)* | – | 3,107 | 3,107 |
| Disposal of subsidiaries *(note 34(b))* | (33,320) | (3,026) | (36,346) |
| Disposals | – | (2,050) | (2,050) |
| Depreciation | (1,366) | (50,308) | (51,674) |
| Exchange differences | (813) | 183 | (630) |
| Closing net book amount | 47,835 | 82,545 | 130,380 |
| **At 31st March 2006** | | | |
| Cost | 80,604 | 350,592 | 431,196 |
| Accumulated depreciation | (32,769) | (268,047) | (300,816) |
| Net book amount | 47,835 | 82,545 | 130,380 |

*Notes:*

(a) Certain property, plant and equipment of the Group have been pledged for bank borrowings. The carrying value of these property, plant and equipment as at 31st March 2006 were approximately HK$14,356,000 (2005: HK$56,391,000).

(b) At 31st March 2006, the net book value of property, plant and equipment held under finance leases amounted to HK$1,284,000 (2005: HK$886,000).

(c) Impairment loss was included in other operating expenses in the consolidated profit and loss account.

## 18. Investment properties

### Group

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| At 1st April 2005 and 2004 | **712,350** | 558,020 |
| Acquisition of subsidiaries | **9,960** | – |
| Disposal of subsidiaries *(note 34(b))* | **(746,200)** | – |
| Disposals | **(450)** | – |
| Exchange differences | **456** | – |
| Fair value gains | **58,224** | 154,330 |
| At 31st March | **34,340** | 712,350 |

The investment properties were revalued by independent professionally qualified valuers, CS Surveys Limited, Jones Lang La Salle Limited and Knight Frank Private Limited at 31st March 2006. Valuations were based on open market value of these properties.

The Group's interests in investment properties are analysed as follows:

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| In Hong Kong, held on: | | |
| – Leases between 10 to 50 years | **20,900** | 712,350 |
| Outside Hong Kong: | | |
| – Freehold | **13,440** | – |
| | **34,340** | 712,350 |

Investment properties amounting to HK$33,440,000 (2005: HK$711,100,000) were pledged to secure banking facilities to the Group.

## 19. Prepayment of lease premium

The Group's interests in prepayment of lease premium at their net book amounts are analysed as follows:

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| In Hong Kong, held on: | | |
| – Leases between 10 to 50 years | **79,622** | 100,773 |
| Outside Hong Kong, held on: | | |
| – Leases over 50 years | **2,690** | 2,914 |
| – Leases between 10 to 50 years | **52,664** | 44,150 |
| – Leases under 10 years | **11,901** | 14,993 |
| | **146,877** | 162,830 |

The movements of net book value of prepayment of lease premium are analysed as follows:

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| At 1st April 2005 and 2004 | **162,830** | 166,428 |
| Additions | **10,581** | 5,649 |
| Disposal of subsidiaries *(note 34(b))* | **(17,849)** | – |
| Disposals | **(296)** | (863) |
| Amortisation *(note b)* | **(8,738)** | (8,641) |
| Exchange differences | **349** | 257 |
| At 31st March | **146,877** | 162,830 |

*Notes:*

(a) Certain prepayment of lease premium of the Group have been pledged for bank borrowings. The carrying amount of these prepayment of lease premiums at 31st March 2006 were HK$101,244,000 (2005: HK$109,458,000).

(b) Amortisation of prepayment of lease premium is included in the consolidated profit and loss account as follows:

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Selling expenses | **5,034** | 5,130 |
| General and administrative expenses | **3** | 1 |
| Other operating expenses | **3,701** | 3,510 |
| | **8,738** | 8,641 |

## 20. Subsidiaries and amounts due from/to subsidiaries

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Unlisted investments, at cost less provision | **–** | 495,150 |
| Amounts due from subsidiaries | **583,674** | 116,155 |
| Amounts due to subsidiaries | **–** | (161,761) |

The amounts due from/to subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Details of principal subsidiaries are shown on note 39.

## 21. Intangible assets

**Group**

| | Goodwill HK$'000 | Trademarks HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Year ended 31st March 2005** | | | |
| Opening net book account | – | 19,160 | 19,160 |
| Exchange differences | – | 270 | 270 |
| Amortisation *(note 9)* | – | (2,378) | (2,378) |
| Closing net book amount | – | 17,052 | 17,052 |
| **At 31st March 2005** | | | |
| Cost | – | 46,434 | 46,434 |
| Accumulated amortisation | – | (29,382) | (29,382) |
| Net book amount | – | 17,052 | 17,052 |
| **Year ended 31st March 2006** | | | |
| Opening net book account | – | 17,052 | 17,052 |
| Acquisition of subsidiaries *(note 38)* | 4,231 | – | 4,231 |
| Exchange differences | 1,084 | (331) | 753 |
| Closing net book amount | 5,315 | 16,721 | 22,036 |
| **At 31st March 2006** | | | |
| Cost | 5,315 | 43,762 | 49,077 |
| Accumulated amortisation | – | (27,041) | (27,041) |
| Net book amount | 5,315 | 16,721 | 22,036 |

## 22. Investment securities

**Group**

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Unlisted overseas shares, at cost | **–** | 4,299 |

Investment securities as at 31st March 2005 represents the unlisted overseas shares and is denominated in Switzerland Francs.

## 23. Available-for-sale financial assets

**Group**

| | *HK$'000* |
|---|---|
| At 31st March 2005 and 1st April 2005, as previously reported | 4,299 |
| Opening adjustment transfer to equity on the adoption of HKAS 39 *(note 30)* | 7,201 |
| At 1st April 2005, as restated | 11,500 |
| Revaluation deficit transfer to equity *(note 30)* | (580) |
| At 31st March 2006 | 10,920 |

There were no disposals or impairment provisions on available-for-sale financial assets in the year ended 31st March 2006.

Available-for-sale financial assets as at 31st March 2006 represents the unlisted overseas shares and is denominated in Switzerland Francs.

## 24. Stocks

**Group**

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Raw materials | **28,032** | 60,866 |
| Work-in-progress | **3,181** | 1,437 |
| Finished goods | **425,614** | 326,546 |
| | **456,827** | 388,849 |

## 25. Debtors and prepayments

**Group**

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade debtors *(note a)* | | |
| Below 60 days | **86,340** | 15,360 |
| Over 60 days | **15,098** | 28,916 |
| | **101,438** | 44,276 |
| Deposits, prepayments and other debtors *(note b)* | **202,488** | 248,554 |
| | **303,926** | 292,830 |

*Notes:*

(a) The Group allows an average credit period of 60 days to its trade debtors.

(b) Included in the balances are amounts due from related companies of HK$84,162,000 (2005: HK$143,340,000) of which a balance owed by Bangkok Land Public Company Limited, in which the estate of Mr. Wong Chue Meng is a substantial shareholder, is made up as follows:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Property development consultancy fee receivable | **68,279** | 117,919 |
| Interest receivable | **33,610** | 32,264 |
| | **101,889** | 150,183 |
| Impairment | **(22,094)** | (24,198) |
| | **79,795** | 125,985 |

Of the gross amount receivable, HK$94,603,000 (2005: HK$142,906,000) carries interest at 3% per annum and is repayable on demand.

All other balances due from related companies are unsecured, interest free and have no fixed terms of repayment.

Impairment of debtors is included in other operating expenses in the consolidated profit and loss account.

**25. Debtors and prepayments** *(Continued)*

An analysis of debtors and prepayments by currency is as follows:

| | 2006 | 2005 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Hong Kong dollars | **185,594** | 224,790 |
| Renminbi | **55,256** | 7,116 |
| Singapore dollars | **15,754** | 13,204 |
| Malaysian ringgit | **21,634** | 7,646 |
| Thai bahts | **8,433** | 8,714 |
| US dollars | **10,999** | 20,258 |
| Others | **6,256** | 11,102 |
| | **303,926** | 292,830 |

**26. Marketable securities**

**Group**

| | 2006 | 2005 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Overseas listed shares, at market value | **–** | 83 |

An analysis of marketable securities by currency is as follows:

| | 2006 | 2005 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Swiss francs | **–** | 65 |
| Malaysian ringgit | **–** | 18 |
| | **–** | 83 |

**27. Financial assets at fair value through profit or loss**

**Group**

| | 2006 | 2005 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Listed shares in Hong Kong, at market value | **90,851** | – |

**28. Bank balances and cash**

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Unrestricted balances | **142,858** | 64,779 | **45** | 10 |
| | **142,858** | 64,779 | **45** | 10 |

An analysis of bank balances and cash by currency is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Hong Kong dollars | **18,211** | 15,405 | **45** | 10 |
| Renminbi | **14,897** | 13,864 | **–** | – |
| Singapore dollars | **16,836** | 7,752 | **–** | – |
| Malaysian ringgit | **23,058** | 4,875 | **–** | – |
| Thai bahts | **56,362** | 6,674 | **–** | – |
| Pound sterling | **10,499** | 12,954 | **–** | – |
| Others | **2,995** | 3,255 | **–** | – |
| | **142,858** | 64,779 | **45** | 10 |

**29. Share capital**

| | **Number of shares of HK$0.1 each** | *HK$'000* |
|---|---|---|
| Authorised: | | |
| At 31st March 2005 and 2006 | 1,600,000,000 | 160,000 |
| Issued and fully paid: | | |
| At 1st April 2004 | 943,340,023 | 94,334 |
| Issue of shares | 8,000,000 | 800 |
| At 31st March 2005 and 2006 | 951,340,023 | 95,134 |

**29. Share capital** *(Continued)*

On 25th June 1997, a share option scheme for the executive directors and employees of the Company and its subsidiaries (the "Scheme") was approved and adopted by the shareholders pursuant to which the directors were authorised to grant options to executive directors and employees of the Company or its subsidiaries to subscribe for shares of the Company for a period of ten years. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 5% of the total shares in issue. Movements in the number of share options outstanding during the year are as follows:

| | **2006** | 2005 |
|---|---|---|
| At the beginning of the year | – | 8,000,000 |
| Exercised | – | (8,000,000) |
| Lapsed | – | – |
| At end of year | – | – |

Options exercised by certain directors on 24th September 2004, 27th September 2004 and 30th September 2004 resulted in 5,000,000, 2,000,000 and 1,000,000 shares respectively being issued at HK$0.248 each, yielding the following proceeds, before transaction costs of HK$6,000.

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Ordinary share capital – at par | – | 800 |
| Share premium | – | 1,184 |
| Proceeds | – | 1,984 |

*Notes:*

(a) Market value of shares issued at exercise date of:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| – 24th September 2004 | – | 2,700 |
| – 27th September 2004 | – | 1,140 |
| – 30th September 2004 | – | 570 |

(b) No share options were outstanding at 31st March 2005 and 2006.

**29. Share capital** *(Continued)*

**New option scheme**

On 9th March 2005, a new share option scheme, replacing the previous scheme which was approved by the shareholders on 25th June 1997, for the employees, officers and directors of the Company and its subsidiaries (the "Share Option Scheme") was approved and adopted by the shareholders pursuant to which the Board was authorised to grant options to the employees, officers and directors of the Company or its subsidiaries to subscribe for shares of the Company for a fixed period. The option period refers to a period which the Board may in its absolute discretion determine and specify, save that (a) for ease of administration, in the absence of a separate Board resolution at the time of grant specifying otherwise, such period should be seven years from the commencement date of the share option and (b) in any event such period shall expire not later than 10 years from the commencement date of the share option.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes must not in aggregate exceed 95,134,002 shares. The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes must not exceed 30% of the shares in issue from time to time. No options may be granted under any schemes of the Company if this will result in the limit being exceeded. An offer of the grant of options must be accepted within 28 days from the commencement date of the relevant option period. The consideration payable on acceptance of the offer for the grant of an option is HK$1. The subscription price is determined by the Board at the time of grant of the relevant option and shall not be less than whichever is the higher of the closing price of the shares as stated in the daily quotation sheets of the Stock Exchange of Hong Kong Limited ("Stock Exchange") on the commencement date of the share option, which must be a business day; the average closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately proceeding the commencement date of the share option; and the nominal value of a share.

No option has been granted during the year.

## 30. Reserves

### Group

| | Share premium HK$'000 | Contribution surplus HK$'000 | (Accumulated loss)/ retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1st April 2004 | 793 | 2,848,462 | (2,121,120) | 728,135 |
| Transfer *(note)* | – | (2,848,462) | 2,848,462 | – |
| Issue of shares | 1,184 | – | – | 1,184 |
| Exchange difference | – | – | (3,646) | (3,646) |
| Profit for the year | – | – | 171,020 | 171,020 |
| Dividends paid | – | – | (28,380) | (28,380) |
| At 31st March 2005 | 1,977 | – | 866,336 | 868,313 |
| Representing: | | | | |
| 2005 final proposed dividend | | | | 23,784 |
| Reserves | | | | 844,529 |
| | | | | 868,313 |
| At 1st April 2005 | | | | |
| As previously reported | 1,977 | – | 866,336 | 868,313 |
| Opening adjustment on adoption of HKAS 39 | – | 7,201 | – | 7,201 |
| As restated | 1,977 | 7,201 | 866,336 | 875,514 |
| Exchange difference | – | – | (895) | (895) |
| Change in fair value of available-for-sale financial assets | – | (580) | – | (580) |
| Profit for the year | – | – | 187,439 | 187,439 |
| Dividends paid | – | – | (508,967) | (508,967) |
| **At 31st March 2006** | **1,977** | **6,621** | **543,913** | **552,511** |
| Representing: | | | | |
| 2006 final proposed dividend | | | | 26,638 |
| Reserves | | | | 525,873 |
| | | | | 552,511 |

**30. Reserves** *(Continued)*

**Company**

| | **Share Premium** *HK$'000* | **Contributed surplus** *HK$'000* | **(Accumulated loss)/ retained profits** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|
| At 1st April 2004 | 793 | 4,085,186 | (3,702,477) | 383,502 |
| Transfer *(note)* | – | (4,085,186) | 4,085,186 | – |
| Issue of shares | 1,184 | – | – | 1,184 |
| Loss for the year | – | – | (3,560) | (3,560) |
| Dividends paid | – | – | (28,380) | (28,380) |
| At 31st March 2005 | 1,977 | – | 350,769 | 352,746 |
| Representing: | | | | |
| 2005 final proposed dividend | | | | 23,784 |
| Reserves | | | | 328,962 |
| | | | | 352,746 |
| At 1st April 2005 | 1,977 | – | 350,769 | 352,746 |
| Profit for the year | – | – | 639,158 | 639,158 |
| Dividends paid | – | – | (508,967) | (508,967) |
| **At 31st March 2006** | **1,977** | **–** | **480,960** | **482,937** |
| Representing: | | | | |
| 2006 final proposed dividend | | | | 26,638 |
| Reserves | | | | 456,299 |
| | | | | **482,937** |

At 31st March 2006, the distributable reserves of the Company available for distribution as dividends to shareholders amounted to HK$482,937,000 (2005: HK$352,746,000).

*Note:*

A special general meeting of the shareholders was held on 6th September 2004. The shareholders resolved to eliminate and apply the credit balance of the contributed surplus account of the Company by way of a transfer of the balance to the profit and loss appropriation account of the Company. Immediately after the elimination and application, there will no longer be any balance in the contributed surplus account and as a result, a credit balance will be recorded in the profit and loss appropriation account of the Company. This will streamline the accounts of the Company and will enable the Company to achieve a capital structure that would permit and facilitate the payment of dividends, as and when the directors consider it appropriate.

## 31. Creditors and accruals

### Group

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Trade creditors | | |
| Below 60 days | **110,359** | 62,306 |
| Over 60 days | **34,606** | 69,622 |
| | **144,965** | 131,928 |
| Other creditors and accruals *(note)* | **166,155** | 152,508 |
| | **311,120** | 284,436 |

*Note:*

Included in other creditors and accruals are amounts due to related companies of HK$9,762,000 (2005: HK$7,049,000) respectively, which are unsecured, interest free and have no fixed terms of repayment.

An analysis of creditors and accruals by currency is as follows:

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Hong Kong dollars | **174,313** | 178,800 |
| Renminbi | **46,439** | 30,324 |
| Singapore dollars | **13,970** | 9,867 |
| Malaysian ringgit | **9,145** | 9,640 |
| Thai bahts | **29,580** | 28,071 |
| US dollars | **22,130** | 5,982 |
| Pound sterling | **5,104** | 14,025 |
| Others | **10,439** | 7,727 |
| | **311,120** | 284,436 |

## 32. Borrowings

### Group

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Bank loans and overdrafts *(note a)* | **321,674** | 495,440 |
| Loans from related companies *(note b)* | **42,278** | 11,580 |
| Obligations under finance leases *(note c)* | **1,188** | 817 |
| Loans from a director *(note d)* | **–** | 8,648 |
| | **365,140** | 516,485 |
| Amount repayable within one year included in current liabilities | **(329,164)** | (236,766) |
| | **35,976** | 279,719 |

**32. Borrowings** *(Continued)*

**Group**

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| (a) Bank loans and overdrafts | | |
| Secured | **309,376** | 431,845 |
| Unsecured | **12,298** | 63,595 |
| | **321,674** | 495,440 |

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| The long term bank loans are repayable as follows: | | |
| Not exceeding one year | **8,927** | 11,617 |
| More than one year, but not exceeding two years | **7,219** | 14,242 |
| More than two years, but not exceeding five years | **15,074** | 207,728 |
| More than five years | **12,996** | 57,200 |
| | **44,216** | 290,787 |

An analysis of the carrying amounts of the Group's bank loans and overdrafts by type and currency is as follows:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Hong Kong dollars | **290,509** | 480,859 |
| Renminbi | **2,880** | 2,820 |
| Singapore dollars | **9,600** | – |
| Thai baths | **7,099** | 667 |
| Swiss Franc | **11,586** | 11,094 |
| | **321,674** | 495,440 |

The weighted average effective interest rate per annum for bank loans and overdrafts was 7.29% (2005: 3.40%).

The carrying amounts and fair values of total bank loans and overdrafts are as follows:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Carrying values | **321,674** | 495,440 |
| Fair values | **321,474** | 494,893 |

The fair values are based on discounted flows using rates based on the borrowings rates at 7.34% as at 31st March 2006 (2005: 3.45%), with reference to the types and currencies of borrowings.

**32. Borrowings** *(Continued)*

(b) Loans from related companies:

The loans from related companies are repayable as follows:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Not exceeding one year | **42,278** | 11,580 |

An analysis of the carrying amounts of the Group's loans from related companies by type and currency is as follows:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Hong Kong dollars | **27,000** | 11,580 |
| Singapore dollars | **15,278** | – |
| | **42,278** | 11,580 |

The weighted average effective interest rates per annum for loan from related companies was 5.18% (2005: 3.25%).

The carrying amounts and fair values of loans from related companies are as follows:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Carrying amounts | **42,278** | 11,580 |
| Fair values | **42,258** | 11,579 |

The fair values are based on discounted cash flows using rates based on the borrowings rates at 5.23% as at 31st March 2006 (2005: 3.50%), with reference to the types and currencies of borrowings.

Loans from related companies as at 31st March 2006 are unsecured, bear interest at prime rate less 2% and are obligated to be fully repaid on 31st March 2007.

Loan from a related company as at 31st March 2005 was unsecured, bore interest at prime rate less 2% and was fully repaid on 29th April 2005.

**32. Borrowings** *(Continued)*

(c) The obligations under finance leases are payable as follows:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Not exceeding one year | **555** | 311 |
| More than one year, but not exceeding two years | **352** | 300 |
| More than two years, but not exceeding five years | **419** | 342 |
| | **1,326** | 953 |
| Future finance charges on finance leases | **(138)** | (136) |
| Present value of finance lease liabilities | **1,188** | 817 |
| The present value of finance lease liabilities is as follows: | | |
| Not exceeding one year | **503** | 268 |
| More than one year, but not exceeding two years | **304** | 253 |
| More than two years, but not exceeding five years | **381** | 296 |
| | **1,188** | 817 |

An analysis of the carrying amounts of the obligation under finance leases by type and currency is as follows:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Hong Kong dollars | **81** | 146 |
| Singapore dollars | **554** | 504 |
| Malaysian riggit | **553** | 167 |
| | **1,188** | 817 |

(d) The loans from a director comprised the following:

(i) The Hong Kong Dollar loan of HK$1,101,000 at 31st March 2005 was unsecured, interest-bearing at 1.5% per annum, and repayable at one month notice given by the director.

(ii) The Thai Baht loan of HK$7,547,000 at 31st March 2005 was unsecured, interest-bearing at 6.75% per annum, repayable in May 2005 and was renewed for another six months to mature in November 2005.

## 33. Deferred taxation

### Group

Deferred taxation is calculated in full on temporary differences under the liability method using rates of taxation prevailing in the territories in which the Group operates.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Deferred tax assets | **21,840** | 32,875 |
| Deferred tax liabilities | **(3,486)** | (47,985) |
| | **18,354** | (15,110) |

The movements in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year are as follows:

| | **Deferred tax assets/(liabilities)** | | | | |
|---|---|---|---|---|---|
| | **Tax losses** | **Revaluation of investment properties** | **Accelerated accounting/(tax) depreciation allowances** | **Other temporary differences** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 31st March 2004 and 1st April 2004 | 16,870 | 5,711 | (23,711) | 9,402 | 8,272 |
| Transfer to profit and loss account | | | | | |
| – continuing operations | (2,735) | (26,014) | 773 | 4,381 | (23,595) |
| Exchange difference | 10 | – | 130 | 73 | 213 |
| At 31st March 2005 and 1st April 2005 | 14,145 | (20,303) | (22,808) | 13,856 | (15,110) |
| Transfer to profit and loss account | (11,276) | (9,555) | (1,054) | (564) | (22,449) |
| Release of deferred tax liability | | | | | |
| upon disposal of Stelux House | – | 29,858 | 26,574 | – | 56,432 |
| Exchange difference | – | – | (24) | (120) | (144) |
| Acquisition of subsidiaries | – | (1,628) | 380 | 873 | (375) |
| At 31st March 2006 | 2,869 | (1,628) | 3,068 | 14,045 | 18,354 |

Deferred tax assets are recognised for tax loss to the extent that realisation of the related tax benefit through the future taxable profits is probable. As at 31st March 2006, the Group had unrecognised tax losses of HK$351,506,454 (2005: HK$323,253,000) to carry forward against future taxable income. Tax losses have no expiry date except HK$1,883,827, HK$5,597,789 and HK$14,663,861 will be expired on 31st March 2009, 2010 and 2011 respectively.

## 34. Note to the consolidated cash flow statement

### (a) Reconciliation of profit before taxation to net cash generated from operating activities

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit/(loss) before taxation | | |
| – Continuing operations | **183,411** | 231,864 |
| – Discontinued operation | **(7,582)** | (24,762) |
| Depreciation | **51,674** | 46,803 |
| Loss on disposal of property, plant and equipment | **731** | 96 |
| Fair value gains of investment properties | **(58,224)** | (154,330) |
| Gain on disposal of subsidiaries | **(15,150)** | – |
| Fair value gain of financial assets at fair value through profit or loss | **(50,749)** | – |
| Impairment of property, plant and equipment | **–** | 1,162 |
| Amortisation of prepayment of lease premium | **8,738** | 8,641 |
| Amortisation of trademarks | **–** | 2,378 |
| Interest income | **(5,540)** | (6,872) |
| Interest expenses | **32,949** | 19,035 |
| Dividend income | **(820)** | (1,195) |
| Net exchange gains | **(5,401)** | (6,253) |
| Effect of foreign exchange rate changes | **4,337** | 1,279 |
| Operating profit before working capital changes | **138,374** | 117,846 |
| Increase in stocks | **(4,235)** | (39,464) |
| (Increase)/decrease in debtors and prepayments | **(8,903)** | 28,635 |
| (Decrease)/increase in creditors and accruals | **(32,896)** | 10,203 |
| Decrease in balances with related companies | **77,021** | 24,181 |
| Decrease in restricted bank balance | **–** | 2,024 |
| Increase in financial assets at fair value through profit or loss | **(40,001)** | – |
| Cash generated from operations | **129,360** | 143,425 |

### (b) Disposal of subsidiaries

On 20th December 2005, an agreement was entered into between the Group and Yee Hing Company Limited ("Yee Hing") pursuant to which the Group has agreed to dispose of Stelux House (the "Property") to Yee Hing for a cash consideration of HK$820,000,000 through the disposal of the entire issued share capital of Stelux Holdings International (BVI) Limited ("Stelux International (BVI)"), a subsidiary of the Company, following a group reorganisation ("the Disposal").

**34. Note to the consolidated cash flow statement** *(Continued)*

**(b) Disposal of subsidiaries** *(Continued)*

Analysis of the effect of Stelux International (BVI) and its subsidiary disposed:

| | *HK$'000* |
|---|---|
| Property, plant and equipment | 36,346 |
| Investment properties | 746,200 |
| Prepayment of lease premium | 17,849 |
| Debtors and prepayments | 1,952 |
| Creditors and accruals | (9,693) |
| Net assets | 792,654 |
| Gain on disposal of subsidiaries | 15,150 |
| Net assets disposed of (excluding cash and cash equivalents) | 807,804 |
| Sale consideration | 820,000 |
| *Less:* Adjustment on consideration for assets and liabilities relating to the Property | (4,706) |
| Cash and cash equivalents disposed | (9) |
| Direct expenses related to the Disposal | (7,481) |
| Cash inflow on Disposal | 807,804 |

**35. Contingent liabilities**

**Group**

| | **2006** *HK$'000* | 2005 *HK$'000* |
|---|---|---|
| Bills discounted | – | 6,796 |

**Company**

| | **2006** *HK$'000* | 2005 *HK$'000* |
|---|---|---|
| Guarantees to secure banking facilities for subsidiaries | **554,379** | 676,993 |
| Other guarantees for subsidiaries | **2,445** | 2,409 |

## 36. Commitments

(a) Capital commitments for property, plant and equipment:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Contracted but not provided for | **842** | 1,825 |
| Authorised but not contracted for | **–** | 420 |
| | **842** | 2,245 |

(b) Commitments under operating leases (where the Group is the lessee)

The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Buildings | | |
| Not later than one year | **241,854** | 181,449 |
| Later than one year but not later than five years | **219,500** | 171,624 |
| | **461,354** | 353,073 |
| Machinery | | |
| Not later than one year | **168** | – |
| | **461,522** | 353,073 |

(c) Operating lease arrangements (where the Group is the lessor)

The Group had future aggregate minimum lease receivables under non-cancellable operating leases as follows:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Buildings | | |
| Not later than one year | **1,308** | 19,494 |
| Later than one year but not later than five years | **1,194** | 12,854 |
| | **2,502** | 32,348 |

## 37. Related party transactions

The Group is controlled by the estate of Mr. Wong Chue Meng. It is interested in approximately 60% of the issued share capital of the Company. The remaining 40% of the shares are widely held. The ultimate holding company of the Group is Yee Hing Company Limited (incorporated in Hong Kong). The estate of Mr. Wong Chue Meng has controlling interest in Yee Hing Company Limited ("Yee Hing") and Mengiwa Private Limited ("Mengiwa").

The following is a summary of the significant related party transactions carried out in the normal course of the Group's business:

(i) Sales of goods and services/advances to related companies

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Rental income received and receivable from related companies[1] | **2,600** | 1,691 |
| Interest income from a related company[2] | **3,448** | 4,215 |

[1] On 14th August 2001, Stelux Holdings Limited, a former wholly owned subsidiary company of the Company, entered into lease agreements with Yee Hing Company Limited and International Optical Manufacturing Company Limited, a 60% owned subsidiary company of Yee Hing Company Limited for the lease of office premises at Stelux House for a period of up to three years expired on 14th August 2004 at a monthly rental of HK$55,900 and HK$95,040 respectively.

The leases were renewed on 9th August 2004 for lease terms expiring on 31st March 2007 at a monthly rental of HK$49,450 and HK$85,536 respectively.

[2] Interest income is charged at 3% per annum on the balance owed by Bangkok Land Public Company Limited, in which the estate of Mr. Wong Chue Meng is a substantial shareholder and is repayable on demand (note 25(b)).

[3] The Group entered into tenancy agreements with Stelux Holdings Limited ("SHL"), which was the landlord of Stelux House and a wholly-owned subsidiary company of Yee Hing, to lease certain units and carparking spaces in Stelux House for the period from 30th March 2006 to 31st March 2008 at an aggregated monthly rental of HK$373,000.

In addition, Stelux Properties Agency Limited ("SPAL"), a wholly-owned subsidiary of the Group entered into agreement ("Services Agreement") with Stelux Holdings Limited ("SHL") a wholly-owned subsidiary company of Yee Hing for the provision of the following services ("Services"):

(a) Contract administration with respect to contracts entered into between SHL and third parties from time to time;

(b) property agency liaison and tenancy management;

(c) management of the property manager of Stelux House; and

(d) other miscellaneous administrative services.

Duration of the Services Agreement is from 30th March 2006 to 31st March 2008. The fee was agreed at HK$170,000 per calendar month in the first year during the duration of the Service Agreement.

**37. Related party transactions** *(Continued)*

(ii) Purchases of goods and services/advances from related companies

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Purchase of goods: | | |
| – Related companies | **5,009** | 3,748 |
| – Subsidiaries *(note a)* | **24,131** | 41,568 |
| Interest expense to a related company | **2,134** | 566 |
| Interest expense to a shareholder | **145** | – |
| Interest expense to directors | **720** | 62 |
| Rental expense to related companies *(note b)* | **1,317** | – |
| | **33,456** | 45,944 |

*Note:*

(a) Thong Sia Company (Singapore) Private Limited, Thong Sia Watch Company Limited and Thong Sia Sdn Bhd were acquired by the Group on 30 September 2005 and have become subsidiaries of the Group since then.

(b) On 20th July 2005, Thong Sia Watch Company Limited, as tenant has entered into a tenancy agreement with Thong Sia Investment Company Limited ("TSICL"), a company controlled by certain substantial shareholders, for the lease of office premises and service centre for a period of 3 years from 1st July 2005 up to and including 30th June 2008 at a monthly rental of HK$119,080. This transaction ceased in November 2005.

On 3rd August 2005, Thong Sia Company (Singapore) Pte Limited, as tenant has entered into a tenancy agreement with Mengiwa for the lease of office premises and showroom in Singapore for a period of 3 years from 1st July 2005 up to and including 30th June 2008 at a monthly rental of HK$168,000.

(iii) Year-end balances arising from rental income, interest income and purchases of goods

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Rent receivable from related companies | **476** | 145 |
| Interest receivable from a related company *(note 37(a)(i)²)* | **33,610** | 32,264 |
| Trading balances receivable from a related company | **3,973** | 663 |
| Trading balances payable to related companies | **2,030** | 2,704 |

(iv) Key management compensation

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Salaries and other short-term employee benefits | **25,079** | 22,228 |
| Other long-term benefits | **254** | 378 |
| | **25,333** | 22,606 |

## 38. Acquisition of subsidiaries

On 30th September 2005, the Group acquired 100.0%, 96.0% and 94.4% equity interests respectively in Thong Sia Company (Singapore) Pte Limited, Thong Sia Watch Company Limited and Thong Sia Sdn Bhd (collectively "Thong Sia"). Thong Sia is principally engaged in the wholesaling of Seiko watches, clocks and optical products in Singapore, Hong Kong and Malaysia.

Details of net assets acquired and goodwill are as follows:

| | *HK$'000* |
|---|---|
| Purchase consideration: | |
| – Cash paid | 55,268 |
| – Direct cost relating to the acquisition | 4,000 |
| Fair value of net assets acquired - shown as below | (55,037) |
| Goodwill | 4,231 |

The goodwill is attributable to the future profitability of the acquired business and the synergies expected to arise after the Group's acquisition of Thong Sia.

The assets and liabilities arising from the acquisition are as follows:

| | **Fair value** *HK$'000* |
|---|---|
| Property, plant and equipment | 3,107 |
| Investment properties | 9,960 |
| Deferred tax assets | 941 |
| Stocks | 63,743 |
| Debtors and prepayments | 59,724 |
| Cash and cash equivalents | 30,165 |
| Deferred tax liabilities | (1,557) |
| Loans from related companies | (41,609) |
| Short term loans, unsecured | (13,216) |
| Taxation payable | (1,447) |
| Creditors and accruals | (50,901) |
| Net assets | 58,910 |
| Minority interests | (3,873) |
| Net assets acquired | 55,037 |
| Purchase consideration settled in cash | (59,268) |
| Cash and cash equivalents acquired | 30,165 |
| Cash outflow on acquisition | (29,103) |

The fair value of identifiable assets acquired and liabilities assumed in the business combination approximate their carrying amounts.

## 39. Ultimate holding company

In the opinion of the directors, the ultimate holding company is Yee Hing Company Limited, incorporated in Hong Kong.

Details of the principal subsidiaries of the Group as at 31st March 2006 are set out below:

| | Place of Incorporation/ operation | Principal activities | Share capital issued Number | Par value | Percentage of equity attributable to the Group 2006 | 2005 |
|---|---|---|---|---|---|---|
| **Investment** | | | | | | |
| Pearl Fortune Investment Limited (Renamed as Stelux Holdings International Group (BVI) Limited effective from 19th June, 2006) | British Virgin Islands | Investment holding | 1 | US$1 | 100[a] | – |
| Stelux Hong Kong Limited (Renamed as Stelux Holdings Limited effective from 22nd May 2006) | Hong Kong | Investment holding | 1,000 | HK$1 | 100 | – |
| Stelux Investments and Properties Limited | British Virgin Islands | Investment holding | 1 | US$1 | 100 | – |
| Stelux Holdings International (BVI) Limited | British Virgin Islands | Investment holding | 2 | US$1 | –[c] | 100 |
| Stelux Holdings Limited | Hong Kong | Investment holding and property investment | 1,000 | HK$1 | –[c] | 100 |
| Stelux Watch Holdings Limited (in members' voluntary liquidation) | Singapore | Investment holding | 35,617,861 | S$1 | 100 | 100 |
| Thong Sia (BVI) Company Limited | British Virgin Islands | Investment holding | 1 | US$1 | 100 | – |
| **Property** | | | | | | |
| City Chain Properties Limited | Hong Kong | Property investment | 2 | HK$1 | 100 | 100 |
| King Eagle Investment Limited (Deregistered effective from 30th June 2006) | Hong Kong | Property investment | 4,583,719 | HK$1 | 100 | 100 |

| | Place of Incorporation/ operation | Principal activities | Share capital issued Number | Par value | Percentage of equity attributable to the Group 2006 | 2005 |
|---|---|---|---|---|---|---|
| **Property** *(Continued)* | | | | | | |
| Optical 88 Properties Limited | Hong Kong | Property investment | 2 | HK$1 | 100 | 100 |
| Prime Master Limited | Hong Kong | Property investment | 2 | HK$1 | 100 | 100 |
| Stelux Consultants B.V. | The Netherlands | Property development and project consultancy | 80 | EUR227 | 100 | 100 |
| Stelux Properties Agency Limited | Hong Kong | Property agency and management | 2 | HK$1 | 100 | 100 |
| Stelux Properties Limited | Hong Kong | Property investment and development | 500 | HK$100 | 100 | 100 |
| **Retailing and trading** | | | | | | |
| City Chain Company Limited | Hong Kong | Watch retailing | 250,000 | HK$100 | 100 | 100 |
| City Chain (M) Sdn Bhd | Malaysia | Watch retailing | 3,333,333 | RM1 | 92.5 | 92.5 |
| City Chain (Macau) Company Limited | Macau | Watch retailing | 2 | MOP5,000 | 100 | 100 |
| City Chain Stores (S) Pte Limited | Singapore | Watch retailing | 1,800,000 | S$1 | 100 | 100 |
| Titus International Trading (Taiwan) Company Limited (Renamed as Thong Tai (Taiwan) Company Limited effective from 10th April 2006) | Hong Kong/ Taiwan | Watch retailing/ distribution | 1,000 | HK$10 | 100 | 100 |

| | Place of Incorporation/ operation | Principal activities | Share capital issued Number | Par value | Percentage of equity attributable to the Group 2006 | 2005 |
|---|---|---|---|---|---|---|
| **Retailing and trading** *(Continued)* | | | | | | |
| City Chain (Thailand) Company Limited | Thailand | Watch retailing | 200,000<br>210,000[b] | Baht100<br>Baht100 | 100 | 100 |
| Evergreen Fame Sdn Bhd | Malaysia | Watch distribution | 320,000 | RM1 | 92.5 | 92.5 |
| Universal Geneve S.A. | Switzerland | Watch assembling and distribution | 5,000 | SFr1,000 | 100 | 100 |
| Optical 88 Limited | Hong Kong | Glasses and related optical gears retailing | 30,700,000 | HK$1 | 100 | 100 |
| Optical 88 (Macau) Limited | Macau | Glasses and related optical gears retailing | 2 | MOP5,000 | 100 | 100 |
| Optical 88 (S) Pte Limited | Singapore | Glasses and related optical gears retailing | 500,000 | S$1 | 100 | 100 |
| Optical 88 (Thailand) Company Limited | Thailand | Glasses and related optical gears retailing | 245,000<br>255,000[b] | Baht10<br>Baht10 | 100 | 100 |
| Optical 88 Eyecare (M) Sdn Bhd | Malaysia | Glasses and related optical gears retailing | 1,428,572 | RM1 | 70 | 70 |
| Poco Hippo Company Limited | Hong Kong | Infant wear marketing and retailing | 2 | HK$100 | 100 | 100 |
| Poco Hippo Co (S) Pte Limited | Singapore | Infant wear marketing and retailing | 100,000 | S$1 | 100 | 100 |
| Pronto Watch S.A. | Switzerland | Watch distribution | 100 | SFr1,000 | 100 | 100 |

| | Place of Incorporation/ operation | Principal activities | Share capital issued Number | Par value | Percentage of equity attributable to the Group 2006 | 2005 |
|---|---|---|---|---|---|---|
| **Retailing and trading** *(Continued)* | | | | | | |
| Solvil et Titus S.A. | Switzerland | Watch distribution | 300 | SFr1,000 | 100 | 100 |
| Stelux International Licensing Limited | Bahamas | Trademark holding and licensing | 2 | US$1 | 100 | 100 |
| Stelux Trading (International) Limited | Hong Kong | Watch distribution | 2 | HK$1 | 100 | 100 |
| Stelux Watch Limited | Hong Kong/ People's Republic of China | Watch assembling | 1,000,000 | HK$1 | 100 | 100 |
| Stelux Watch (UK) Limited | England | Watch distribution | 3,041,536 | GBP1 | 100 | 100 |
| Time House (Europe) Limited | Hong Kong | Watch distribution | 10,000 | HK$1 | 100 | 100 |
| Thong Sia Watch Company Limited | Hong Kong | Watch distribution | 80,000 | HK$10 | 96 | – |
| Thong Sia Company (Singapore) Pte Limited | Singapore | Watch distribution | 2,000,000 | S$1 | 100 | – |
| Thong Sia Sdn Bhd | Malaysia | Watch distribution | 1,000,000 | RM1 | 94.4 | – |
| Wedmore Limited | Hong Kong | Watch retailing | 2 | HK$1 | 100 | 100 |

| | Place of Incorporation/ operation | Principal activities | Paid up capital | Percentage of equity attributable to the Group 2006 | 2005 |
|---|---|---|---|---|---|
| Xiong Teng (Shanghai) Trading Co., Limited | People's Republic of China/ Mainland China (wholly owned trading company in free trade zone) | Trading and business consultancy | US$3,800,000 | 100 | 100 |
| City Chain (Guangdong) Company Limited | People's Republic of China/ Mainland China (foreign-invested commercial enterprise) | Watch retailing, trading and related services | HK$9,000,000 | 100 | 100 |
| Baoshi (Guangdong) Company Limited | People's Republic of China/ Mainland China (foreign–invested commercial enterprise) | Retailing, trading and related optical services | HK$9,000,000 | 100 | 100 |
| City Chain (Shanghai) Company Limited | People's Republic of China/ Mainland China (foreign-invested commercial enterprise) | Watch retailing, trading and related service | US$410,000 | 100 | – |

a Directly held subsidiary company

b Non-redeemable preference shares

c These subsidiaries were disposed on 30th March 2006.

| Commercial properties (own use) | Gross floor area (sq.ft.) | Remaining lease term (years) |
|---|---|---|
| ***Kowloon*** | | |
| Shop No. 22, 1/F Po Tin Building, 39 Wai Chi Street, Pak Tin, Kowloon | 266 | 41 |
| Portion of Flats A, B and C, G/F, Kam Ling Building, 231 Nathan Road, Kowloon | 1,446 | 21 |
| Shop 5, G/F, Chung King Mansion, 36-44 Nathan Road, Tsimshatsui, Kowloon | 699 | 32 |
| ***Macau*** | | |
| Shop D, G/F, Edificio San Vo, 1G, 1H and 1I Rua de S Domingos, A28, Macau | 350 | Freehold |
| Shop E, G/F, Edificio San Vo, 1G, 1H and 1I Rua de S Domingos, A28, Macau | 190 | Freehold |
| Loja B and C, de Avenida Horta e Costa, de Rua Manuel de Arriage, Macau | 475 | Freehold |
| Rua do Arco and Eatrada, da Areia Preta, Loja E, r/c, Macau | 442 | Freehold |
| Rua do Arco and Eatrada, da Areia Preta, Loja G, r/c, Macau | 442 | Freehold |
| Flat D, 2/F, Edificio San Vo, 1G, 1H and 1I Rua de S Domingos, A28, Macau | 400 | Freehold |
| ***United Kingdom*** | | |
| Stelux House, First Avenue, Centrom 100, Burton-On-Trent, Staffordshire, DE14 2WH, England | 12,000 | Freehold |

| Commercial properties (own use) | Gross floor area (sq.ft.) | Remaining lease term (years) |
|---|---|---|
| ***Thailand*** | | |
| Room 2B-O4, 2/F, Mahboonkhrong Centre, 444 Phayathai Rd., Patumwan, Bangkok 10330 | 473 | 5 |
| Room 2B14, 3/F, Mahboonkhrong Ctr., 444 Wangmai Subdistrict, Patumwan, Bangkok 10330 | 487 | 5 |
| Room No. 2C-03-04, 2/F, Mahboonkhrong Center, Patumwan, Bangkok 10330 | 938 | 5 |
| Room No. 33-34, 5 Ratchadapisek Rd., Huay-kwang, Bangkok 10310 | 689 | 6 |
| Room No. 115-116, 191 Silom Rd., Bangruk, Bangkok 10500 | 1,248 | 6 |
| Room 54, 2/F, Amarin Plaza, 500 Ploenchit Rd., Patumwan, Bangkok 10330 | 548 | 9 |
| Room No. 1C-L22/23, 1/F, The Mall Center, Ramkhumhaeng, 1909 Huamark, Bangkapi, Bangkok 10600 | 915 | 10 |
| Room No. AG28, 1/F, Imperial World, 999 Sukhumvit Rd., Samrongnua Amphur Muang, Samutprakarn | 1,295 | 12 |
| Room No. 1S-R4B, 30/9 Ngamwongwan Rd, Bangkhen, Muang District, Nonthaburi 11000 | 1,291 | 14 |
| The Mall 7 Bangkae, Room No. 1S-L8A, 275 Petchakasem Rd., Pasricharoen, Bangkok 10160 | 904 | 17 |
| 55/3 Diana Complex, Sri-puvanard Road, Had-Yai Distric, Songkhla | 538 | 8 |
| The Seri Center, Seri Center Room No. 101, 2nd Floor, 12/90 Srinakarin Rd., Nongborn, Pravet, Bangkok 10250 | 1,672 | 17 |
| The Seacon Square, Room No. 1098, 904 Srinakarin Rd., Nongborn, Pravet, Bangkok 10250 | 1,184 | 19 |
| Central Pinklao, Room No. 126, 7/311 Baromrajchonee Rd., Arunamarin, Bangkoknoi, Bangkok | 867 | 9 |
| Room 2PX-19B2, 1242/2 Mitraparp Rd., Muang District, Nakornrajasrima Province | 1,356 | 21 |
| 402 Room 202A, 2/F, Highway Rd., Tambol Vichit, Amphur Muang, Phuket | 1,367 | 14 |

| Commercial properties (own use) | Gross floor area *(sq.ft.)* | Remaining lease term *(years)* |
|---|---|---|
| ***Thailand*** | | |
| Future Park Rangsit, Room No. G35, 161 Thanyaburi District, Pathumthani | 1,254 | 16 |
| Fashion Island, Room No. 2098/2099, Km. 10.5, Ram Indra Rd, Bangkok | 875 | 16 |
| Mall 5 Thapa, Room No. 1SL1, 1/F, The Mall Center, Bukkalo, Thonburi, Bangkok | 753 | 14 |
| Central Ramindra, Room No. 114, 1/F, 109/10-100 Ramindra Road, Bangkhen, Bangkok | 998 | 8 |
| Future Park Bangkae, Room No. G13, 33-35 Soi Petchakasem, Pasecharoen, Bangkok | 1,811 | 15 |
| Central City Bangna, Room No. 134A, 1093 Bangna-Trad Road., Phakhranong, Bangkok | 729 | 18 |
| Jewerly Trade, Room No. 110, 1/F, 919/1 Silom Road, Bangkok 10500 | 681 | 19 |
| Imperial Lardplao, Room No. AF-47, 1/F, 119/129 Lardpao Road, Bangkapi, Bangkok | 1,453 | 15 |
| Mall 8 Bangkapi, Room #GS-C13B, G/F, 3522 Ladproa Road, Bangkapi, Bangkok | 754 | 17 |
| Central Rama III, G29/1, 1/F, Rama III Road, Bangkok | 1,078 | 17 |
| Udorn, Room #A101, 1/F, Charoensri AR-KET, 277/3 Prachak Road, Udornthani | 431 | 12 |
| Sriracha Town, Room #120, 1/F, 90 Sukumvit Road, Sriracha, Cholburi | 1,009 | 14 |
| Central Chieng Mai, Room 116-117, G/F, Central Airport Plaza, 2 Mahidol Road, Hai-Ya Distric, Chieng Mai | 1,295 | 17 |
| 126 Moo 3, Room G-17 Saiasia Road, Klongsu Anphoo, Sriayuthaya | 1,170 | 13 |
| 128 Room 156/1, 1/F, Moo 6, Rama II Road, Khwaengsamaedam, Khet Bangkhuntien Bangkok | 1,079 | 17 |
| Kaitak Building, 7962 Amphur Pakkred, Nonthaburi Province, Thailand | 106,559 | Freehold |

| Commercial properties (own use) | Gross floor area *(sq.ft.)* | Remaining lease term *(years)* |
|---|---|---|
| ***Thailand*** | | |
| 1B 11-12 Mar Boon Klong Center Building, 444 Phayathai Road, Bangkok | 824 | 5 |
| 128 Room #215, 2/F, Rama 2 Road, Bang Khun Tian Bangkok | 993 | 17 |
| Central Ramindra, 118 First Floor at Central Ramindra, 109/25 Ramindra Road, Bangkhen, Bangkok | 690 | 8 |
| Central Pinklao, G-11A First Floor at Central Pinklao, 7/232 Boa-Rom Rachinee Road, Aroon Amarin, Bangkoknoi, Bangkok | 1,169 | 9 |
| Fashion Island, 1008, 1/F, Ramindra K.M. 10.5, Khannayao, Beungkum, Bangkok | 1,059 | 17 |
| Imperial World, AF-09, 1/F, Imperial Ladproa, Sukaphibal 1, Beungkum, Bangkok | 777 | 15 |
| Central Plaza Rachada Rama III, G29/2 G/F; 79/1-2, Sathupradit Road, Bangkok | 1,003 | 17 |
| Room #135B 1093, Bangna-Trad Road, Bangkok | 1,033 | 18 |
| The Mall 8 Bangkapi, Room No. IS-C70, 3522 Lardpao Rd., Bangkapi, Bangkok 10240 | 754 | 17 |
| Mall 7 Bangkae, Room No. IS-L8B, 1/F, 275 Petchicasem Road, Phasichareon, Bangkok | 871 | 17 |
| The Galleria, 111, Ground Floor at Jewelry Trade Center, 919/1 Silom Road, Bangrak, Bangkok | 792 | 19 |
| 7/F Mar Boon Klong Center Building, 444 Phayathai Road, Bangkok | 532 | 5 |
| Room 2PX-19B1, 1242/2 Mitraparp Rd., Muang District, Nakornrajasrima Province | 1,076 | 21 |
| Room No. G-195 G Fl., 2 Mahidol Rd., Tambol Haiya, Amphur Muang, Chiangmai | 701 | 13 |
| 402 Room 231, Highway Road, Tambol Vichit, Amphur Muang, Phuket | 990 | 14 |
| 99 Room BA-R1, Ground Fl., Ratchadapisak Rd., Bookalo, Thonburi, Bangkok | 1,273 | 2 |
| Room No.G55, Future Park Rangsit Department Store, 161 Moo 2, Praholyothin Road, Prachatippat, Thanyaburi, Pratumthani | 2,785 | 16 |

| Investment properties | Gross floor area *(sq.ft.)* | Remaining lease term *(years)* |
|---|---|---|
| ***New Territories*** | | |
| Unit 3, 1/F and Unit 3, 2/F, Po Yip Building, 62-70 Texaco Road, Tsuen Wan, New Territories | 30,640 | 41 |
| Unit No. 9 and 10, 3/F, and roof, Po Wai Building, 12 Tak Yip Street, Yuen Long, N.T. | 3,907 | 41 |
| ***Singapore*** | | |
| 30 Bideford Road, #26-00 Thongsia Building, Singapore 229922 | 4,091 | Freehold |

## 1. CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of shareholders' interest in general. The Board of Directors (the "Board") of the Company are committed to making sure that effective self-regulatory practices exist to protect the interests of the shareholders. These include a Board comprising experienced and high calibre members, Board Committees and effective internal audit and sound systems of internal controls.

This Corporate Governance Report ("Report") describes the Company's corporate governance practices with specific reference to 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 (the "Listing Rules"). During the financial year ended 31st March 2006, the Company complied with the provisions of the Code as set out in Appendix 14 of Listing Rules, except for the deviations set out in this Report and where there are deviations from the Code, details of such deviations (including considered reasons for such deviations) are set out in this Report.

## 2. DIRECTORS' AND EMPLOYEES' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies contained in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding directors' securities transactions.

The Company has also made specific enquiry of all its directors to ascertain whether they have complied with or whether there has been any non-compliance with the required standard set out in the Model Code.

All directors complied with the provisions of the Model Code during the financial year ended 31st March 2006.

In addition, the Board also established written guidelines on no less exacting terms than the Model Code for relevant employees of the Company in respect of their dealings in the securities of the Company.

## 3. BOARD OF DIRECTORS

The Board assumes responsibility for leadership and control of the Group (the Company and its subsidiaries) and is collectively responsible for promoting the success of the Group by directing and supervising its affairs. Every director is expected to discharge his duties in good faith and up to the standard of prevailing applicable laws and regulations, acting in the best interests of the Group and the Company's shareholders. The Board currently consists of nine members. Among them, five are executive directors and four are non-executive directors. Three out of the four non-executive directors are independent.

The post of Chairman and Chief Executive Officer ("CEO") are separate and are not held by the same individual. The Chairman, Mr. Wong Chong Po, and the CEO, Mr. Joseph C.C. Wong, also Vice Chairman of the Board, are brothers. Both the Chairman and Vice Chairman are responsible for overseeing the function of the Board and formulating overall strategies and policies of the Company. The CEO, supported by other board members and senior management manages the Group's businesses, implementing major strategies, making day-to-day decisions and co-ordinating overall business operations.

The independent non-executive directors are highly experienced professionals with a broad range of expertise and experience including in areas such as accounting, finance and business. They ensure that the Board maintains high standards of financial and other mandatory reporting and provides adequate checks and balance to safeguard the interests of shareholders in general and the Company as a whole.

During the financial year ended 31st March 2006, Dr. Chu Chun Keung, Sydney, an independent non-executive director resigned on 1st August 2005 after having served on the Board for more than seven years. Dr. Wu Chi Man, Lawrence, was appointed as Dr. Chu's replacement on 28th October 2005, pursuant to Rule 3.11 of the Listing Rules. Mr. Wu Chun Sang, an independent non-executive director was appointed on 22nd September 2004 and is a qualified accountant.

## 3 BOARD OF DIRECTORS *(Continued)*

To assist the directors to discharge their duties, the Board has established written procedures to enable the directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expense. Directors are encouraged to attend professional development seminars and programmes during the year.

The term of office of the Company's non-executive directors, including the independent non-executive directors, is for a term of 3 years, subject to retirement (pursuant to Bye-law 110(A) of the Company's Bye-laws) whichever is the earlier.

Under Code Provision A.4.2, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Not all directors of the Company retire strictly under Code Provision A.4.2 but in accordance with the Company's Bye-Laws. Bye-Law 110(A) stipulates that one-third of the directors of the Company who have been longest serving in office since their last election, except the Chairman, Vice Chairman or CEO, shall retire from office by rotation at each annual general meeting.

Both the Board and management have clearly defined responsibilities under various internal control and checks-and-balance mechanisms. The Board is responsible for establishing the strategic direction of the Group, setting objective and business development plans, monitoring the performance of senior management and assuming responsibility for corporate governance. Management is responsible for implementing these strategies and plans, and regular reports on the Company's operations are submitted to the Board. All directors have access to management and enquiries, explanations, briefings or informal discussions on the Company's operations are welcome.

The Board held a total of twelve board meetings during the financial year and up to the date of this Report. Of these, three meetings were held to approve the 2005 final results and 2006 interim and final results of the Group; the other nine meetings were held for the appointment of an executive director and an independent non-executive director and to consider financial and operating performances of the Group and corporate governance issues of the Company. The Executive Director for Finance & Corporate Affairs and the Company Secretary attended all board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and financial.

Details of the directors' attendance at the board meetings during the year and up to the date of this Report are set out below. All businesses transacted at the board meetings are well-documented and the records are maintained in accordance with applicable laws and regulations.

| Date of board meeting | Total no. of directors | No. of directors present |
|---|---:|---:|
| 22nd April 2005 | 9 | 7 |
| 14th July 2005 | 9 | 6 |
| 18th July 2005 | 9 | 7 |
| 21st September 2005 | 8 | 6 |
| 28th October 2005 | 9 | 6 |
| 20th December 2005 | 9 | 7 |
| 26th January 2006 | 9 | 3 |
| 10th February 2006 | 9 | 7 |
| 28th March 2006 | 9 | 7 |
| 24th April 2006 | 10 | 8 |
| 30th May 2006 | 10 | 8 |
| 19th July 2006 | 9 | 7 |

## 3. BOARD OF DIRECTORS *(Continued)*

| Director | No. of board meetings attended/held in FY2006 and up to the date of this Report |
|---|---|
| **Executive Directors** | |
| Mr. Wong Chong Po *(Chairman)* | 0/12 |
| Mr. Joseph C. C. Wong *(Vice Chairman and CEO)* | 11/12 |
| Mr. Chu Kai Wah, Anthony | 12/12 |
| Mr. Lee Shu Chung, Stan | 12/12 |
| Mr. Lau Tak Bui, Vincent *(appointed on 1st April 2006)* | 3/3 |
| Mr. Wong Yuk Woon *(resigned on 1st June 2006)* | 11/11 |
| **Non-executive Directors** | |
| Mr. Sakorn Kanjanapas | 0/12 |
| Mr. Kwong Yiu Chung *(Independent)* | 11/12 |
| Mr. Wu Chun Sang *(Independent)* | 11/12 |
| Dr. Wu Chi Man, Lawrence *(Independent and appointed on 28th October 2005)* | 6/8 |
| Dr. Chu Chun Keung, Sydney *(Independent and resigned on 1st August 2005)* | 2/3 |

The Board is supplied with relevant information by the senior management pertaining to matters to be brought before the Board for decision as well as reports relating to operational and financial performance of the Group before each regular board meeting. At least 14 day's notice of a regular board meeting is given to all directors to give them the opportunity to attend. Board papers are despatched to the directors generally at least 3 days before the meeting (at least 3 days for regular board meetings) and in any event as soon as practicable to ensure that they have sufficient time to review the papers and be adequately prepared for the meeting.

The proceedings of the Board at its meetings are generally conducted by the Vice-Chairman of the Company who ensures that sufficient time is allocated for discussion and consideration of each item on the agenda and also equal opportunities are being given to directors to speak, express their views and share their concerns.

Under the first part of Code Provision E.1.2, the Chairman of the Board should attend annual general meetings. The Chairman of the Board did not attend the annual general meeting of the Company held on 6th September 2005 as he was not in Hong Kong.

The Board acknowledges its responsibility for the preparation of the Group's accounts and has delegated this responsibility to the Executive Director for Finance and Corporate Affairs ("Finance Director"). The Finance Director and his team are responsible for preparing interim and annual financial statements based on generally accepted accounting principles in Hong Kong and ensuring that the financial statements present a fair and true view of the results and the financial position of the Group and complying with the disclosure requirements of the Hong Kong Companies Ordinance, the Listing Rules and other applicable laws and regulations. The Finance Director maintains regular communications with the external auditors. He also plays a role of reviewing and making recommendations to the Board on the Group's financial risk management. The Finance Director is also responsible for overseeing the Group's investors' relation activities.

## 4. AUDITORS' REMUNERATION

The Company appointed PricewaterhouseCoopers as the external auditors of the Company at the 2005 Annual General Meeting until the conclusion of the next Annual General Meeting. During the year, HK$4,190,000 was paid to PricewaterhouseCoopers for the provision of audit services. Details of nature for non-audit related services provided by and the fee paid to PricewaterhouseCoopers are set out as below:

| **Description** | **HK$'000** |
|---|---|
| Special assignments | 4,611 |
| Taxation compliance | 536 |
| Advisory and other services | 491 |

The Group also engaged other auditors in Hong Kong and overseas for miscellaneous services and total fees paid amounted to HK$31,000. Total fees for non-auditing services for local auditors in PRC Mainland amounted to HK$757,000.

## 5. BOARD COMMITTEES

To assist the Board in the discharge of its duties, the Board is supported by two board committees. Each committee has its defined scope of duties and terms of reference and the committee members are empowered to make decisions on matters within the terms of reference of each committee.

### (1) Audit Committee

The Audit Committee comprises three independent non-executive directors, namely Mr. Kwong Yiu Chung, Mr. Wu Chun Sang (Chairman of the Audit Committee) and Dr. Lawrence Wu Chi Man (appointed on 28th October 2005).

The terms of reference of the Committee are aligned with the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants and the code provisions set out in the Corporate Governance Code. The Committee provides advice and recommendations to the Board and oversees all matters relating to the external auditors, thus it plays an important role in monitoring and safeguarding the independence of external auditors.

The Committee met twice during the financial year with the Finance Director, senior management together with the head of the internal control function and the external auditors to review the accounting principles and practices adopted by the Group and other financial reporting matters, to ensure the completeness, accuracy and fairness of the financial statements of the Company, discuss the effectiveness of the systems of internal control throughout the Group and most importantly, review all significant business affairs managed by the executive directors in particular on connected transactions.

Attendance of Directors at the Audit Committee Meetings held on:

| **7th July 2005** | **15th December 2005** |
|---|---|
| Dr. Chu Chun Keung, Sydney | Dr. Wu Chi Man, Lawrence |
| Mr. Kwong Yiu Chung | Mr. Kwong Yiu Chung |
| Mr. Wu Chun Sang | Mr. Wu Chun Sang |

**5. BOARD COMMITTEES** *(Continued)*

**(2) Remuneration Committee**

Under Code Provision B.1.1, issuers should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. The Company established a remuneration committee on 20th December 2005 and Mr. Joseph C. C. Wong (the Vice Chairman of the Company), Mr. Kwong Yiu Chung, Mr. Wu Chun Sang and Dr. Lawrence Wu Chi Man (all independent non-executive directors of the Company) were appointed as committee members. Dr. Lawrence Wu Chi Man is the Chairman of the Remuneration Committee.

Code Provision B.1.3 deals with the terms of reference of the remuneration committee. The Company has adopted the terms of reference under Code Provision B.1.3 except that the terms of reference does not include reviewing and determining the remuneration packages of senior management. The Company believes that the remuneration packages of senior management should be the responsibility of the executive directors as they are in a better position to appraise the performance of senior management.

Two committee meetings have been held since the Remuneration Committee's setup. At these meetings, the Committee determined the remuneration package of a certain executive director and the annual bonus entitlement of the Group's executive directors.

Attendance of Directors at the Remuneration Committee Meetings held on:

| **28th March 2006** | **24th April 2006** |
|---|---|
| Mr. Joseph C.C. Wong | Mr. Joseph C.C. Wong |
| Mr. Kwong Yiu Chung | Mr. Kwong Yiu Chung |
| Mr. Wu Chun Sang | Mr. Wu Chun Sang |
| Dr. Wu Chi Man, Lawrence | Dr. Wu Chi Man, Lawrence |

The above Board Committees report to the Board of Directors on a regular basis. All businesses transacted at the Board Committee meetings are recorded and minuted. The Terms of Reference of the two Board Committees are available on the Company's website.

Although the Company has not set up a nomination committee, clear policies are in place to ensure that the most appropriate candidates are appointed to the Board.

During the financial year 2006 and up to the date of this Report two casual appointments, namely, the appointment of Dr. Wu Chi Man, Lawrence (independent non-executive director) on 28th October 2005 and the appointment of Mr. Vincent Lau Tak Bui as an executive director on 1st April 2006 were made at board meetings.

Attendance of Directors at these board meetings held on:

| **28th October 2005** | **28th March 2006** |
|---|---|
| Mr. Joseph C.C. Wong | Mr. Joseph C.C. Wong |
| Mr. Lee Shu Chung, Stan | Mr. Lee Shu Chung, Stan |
| Mr. Chu Kai Wah, Anthony | Mr. Chu Kai Wah, Anthony |
| Mr. Wong Yuk Woon | Mr. Wong Yuk Woon |
| Mr. Wu Chun Sang | Mr. Wu Chun Sang |
| Mr. Kwong Yiu Chung | Mr. Kwong Yiu Chung |
| | Dr. Wu Chi Man, Lawrence |

## 6. INTERNAL CONTROL

The internal control and accounting systems of the Group are designed to provide reasonable assurance that assets are safeguarded against unauthorised use or disposition, transactions are executed in accordance with management's authorisation and the accounting records are reliable for preparing financial information used within the business or for publication and reflecting accountability for assets and liabilities.

In order to establish a sound system of internal controls in safeguarding shareholders' interests and the Group's assets, the Company established a Compliance and Internal Control Department, the key tasks of which include:

- to report to the Board from time to time of the situation/environment of the Group's corporate governance;
- to review the cost control and performance efficiency in all operating units;
- to identify the need if improvement in the Group's internal control area and propose to the Board the necessary recommendations; and
- to carry out internal audit work at operating units.

## 7. INVESTOR RELATIONS

The Company continues to promote and enhance investor relations and communications with its investors. Communications are maintained with the media, analysts and fund managers to keep them abreast of the Company's development.

## 8. COMMUNICATION WITH SHAREHOLDERS

The Company attaches great importance to communication with its shareholders and investors. To foster effective communications, the Company provides extensive information in its annual report, interim report, press releases and also disseminates information relating to the Group and its business electronically through its website at www.irasia.com/listco/hk/stelux.com.

The Company regards the Annual General Meeting ("AGM") as an important event as it provides an important opportunity for direct communications between the Board and the Company's shareholders. All directors and senior management will make an effort to attend. External auditors are also available at the AGM to address shareholder's queries. All shareholders will be given at least 21 days' notice of the AGM and they are encouraged to attend the AGM and other shareholders' meetings. The Company supports the Corporate Governance Code's principle to encourage shareholders participation.

## 9. CODE OF CONDUCT

To enhance the ethical standards of employees, the Company has an employee handbook, setting out standards of professional and an ethical code of conduct for all employees of the Group. Employees at all levels are expected to conduct themselves in an honest, diligent and responsible manner.

## 10. CONCLUSION

The Company believes that corporate governance principles and practices must remain relevant in a changing world, thus it continues its ongoing effort to review its corporate governance practices from time to time so as to meet the changing circumstances. It will try its best to maintain, strengthen and improve the standard and quality of the Company's corporate governance.


**THE MANAGEMENT TEAM**

From left to right:
**Anthony** Chu Kai Wah, **Stan** Lee Shu Chung, **Joseph** C. C. Wong, **Vincent** Lau Tak Bui, **Caroline** Chong

## PROFILE OF DIRECTORS AND SENIOR EXECUTIVES

### Chairman

WONG Chong Po, aged 64, was appointed Chairman of the Group in October 2003. He was the Managing Director of the Group from 1967 to 1995. He is also the Chairman of Bangkok Land Public Company Limited (Thailand).

### Vice Chairman and Chief Executive Officer

Joseph C. C. WONG, Masters in Science (Operational Research), aged 46, was appointed a director of the Group in 1986. He was appointed Vice Chairman of the Group in October 2003. He is also the Group CEO. He is a brother of the Chairman.

### Directors

Anthony CHU Kai Wah, BBA, aged 46, was appointed a director of City Chain Company Limited, a wholly owned subsidiary of the Group in 1992. He was also appointed Executive Director for Retail Trading and Property Investment of the Group in 1997. He joined the Group in 1987.

Stan LEE Shu Chung, BA, aged 46, was appointed a director of City Chain Company Limited, a wholly owned subsidiary of the Group in 1992. He was also appointed Executive Director for Retail Trading and Marketing of the Group in 1997. He joined the Group in 1987.

Vincent LAU Tak Bui, aged 48, was appointed a director of the Group in 2006. Following, Mr. Wong Yuk Woon's resignation, he has assumed the position of Executive Director for Finance and Corporate Affairs. He is an associate member of the Hong Kong Institute of Certified Public Accountants.

WONG Yuk Woon, CPA, ACIB, aged 60, was appointed an Executive Director of the Group in 1997. He joined the Group in 1992 and was responsible for the Group's Financial and Corporate Affairs until his resignation on 1st June 2006.

Sakorn KANJANAPAS, aged 56, was appointed a director of the Group in 1987. He was previously Managing Director of Bangkok Land Public Company Limited (Thailand). He is a brother of the Chairman. He is a non-executive director.

KWONG Yiu Chung, aged 73, was appointed a director of the Group in 1994 and is Managing Director of his privately owned Excess Trading Company Limited. He is an independent non-executive director.

WU Chun Sang, aged 49, was appointed a director of the Group in 2004. He is a Macau Registered Auditor. He is also a fellow member of the Association of Chartered Certified Accountants, UK and an associate member of the Hong Kong Institute of Certified Public Accountants. He is an independent non-executive director.

Dr. Lawrence WU Chi Man, aged 48, was appointed a director of the Group in 2005. He is an Associate Professor in the Department of Physics and Material Science at the City University of Hong Kong. He holds a PHD from Bristol University, U.K. and is an associate member of the Royal Aeronautical Society, U.K. He is an independent non-executive director.

Sydney CHU Chun Keung, B.S. M.S. (Cornell), aged 55, was appointed as an independent non-executive director of the Group in 1997. He is a Senior Lecturer with the Department of Mathematics at the University of Hong Kong. He resigned on 1st August 2005.

### Company Secretary

Caroline CHONG Sue Peng, BA (Law) (Hons), admitted as a Barrister in England and Wales, and, Hong Kong, aged 44, is the Group Legal Counsel and Company Secretary. She joined the Group in 1997. She is responsible for the Group's legal and corporate secretarial matters.

# CORPORATE INFORMATION

**Registered Office**
Canon's Court, 22 Victoria Street
Hamilton, HM12, Bermuda

**Principal Office**
27th Floor, Stelux House
698 Prince Edward Road East
San Po Kong
Kowloon
Hong Kong

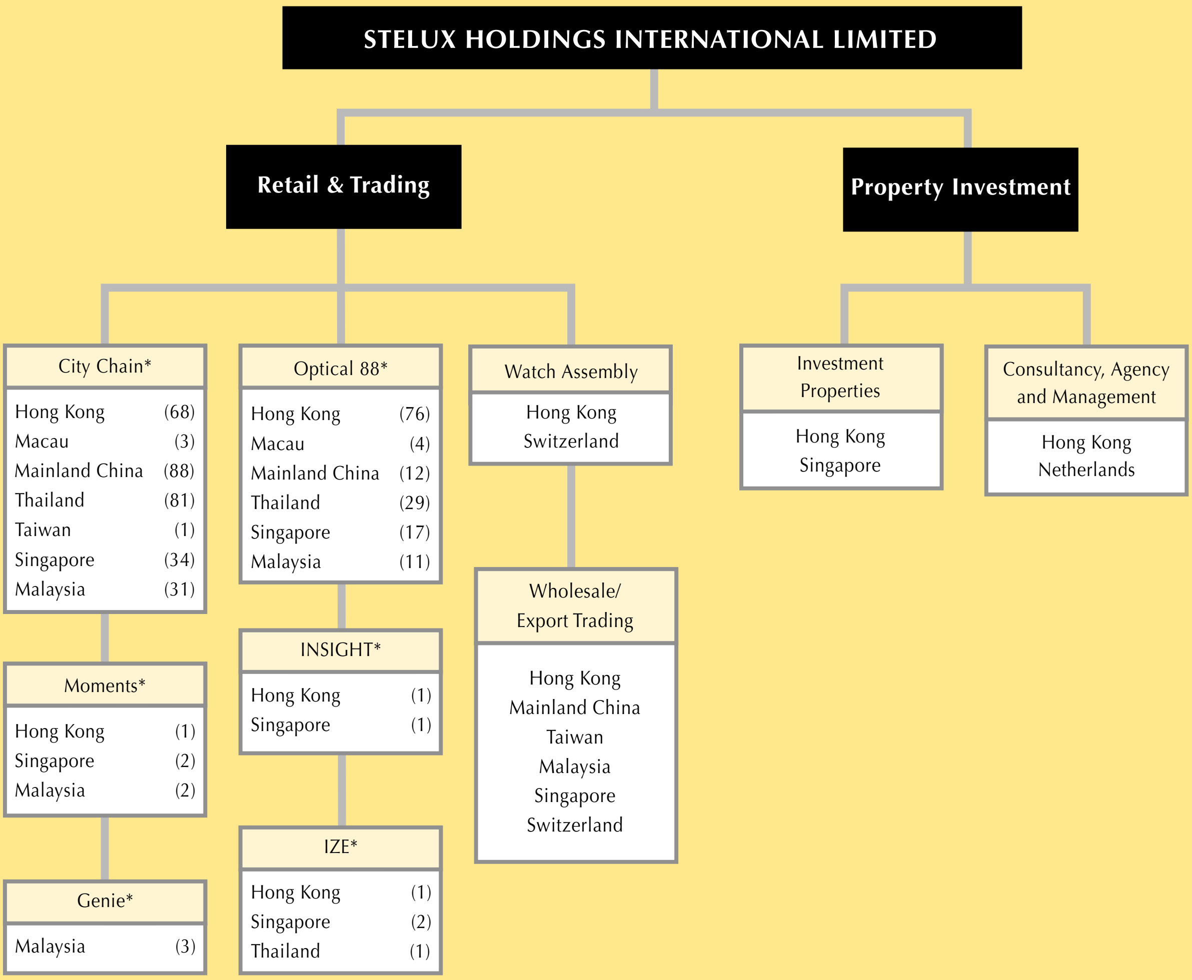
**Principal Bankers**
Bank of America (Asia) Limited
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited

**Legal Advisers**
Baker & Mckenzie
Johnson Stokes & Master
Masons

**Auditors**
PricewaterhouseCoopers

**Share Registrars**
Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

**Branch Share Registrars and Transfer Office**
Computershare Hong Kong Investor Services Limited
Room 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong




* Number of shops as at 30th June 2006

## CORPORATE CITIZENSHIP

The Company was presented with the Caring Company Award in February 2006. The Caring Company Scheme is organised by The Hong Kong Council of Social Service. The goal of the Caring Company Scheme is "to build a caring community spirit through cultivating corporate citizenship and strategic partnership between the business and social service sectors."

During the year, Stelux has donated in kind giving to the community by sponsoring the "Hong Chi Climbathon", and donating its products to Hong Chi Association. Stelux and its staff also participated in activities, such as "Orbis Pin Day".

In conjunction with the Lions SightFirst Foundation Limited, Optical 88 Hong Kong launched a sunglasses and eye glasses recycling scheme where customers were encouraged to donate their used glasses to people with vision problems in mainland China. Optical 88 Hong Kong also donated around 5,000 pairs of glasses and HK$25,000 was raised for people with sight problems through donations made by our customers.

Stelux also promotes and adopts a policy of equal opportunities to eliminate any discrimination in sex, family status and disability in employment and the workplace. City Chain Hong Kong, for example, employs persons with disabilities as watch repairers providing them with technical training.

商界展關懷
caringcompany 2004/05

## MAINLAND CHINA AND HONG KONG

Equity Investment, Property Investment, Retail and Trading and Watch Assembling

- Stelux Holdings International Ltd
- Stelux Holdings Ltd
- Stelux Properties Ltd
- Optical 88 Ltd
- City Chain Co Ltd
- Stelux Watch Ltd
- Stelux Trading (International) Ltd
  27/F., Stelux House,
  698 Prince Edward Road East,
  San Po Kong, Kowloon, HONG KONG

  3/F., Kader Building
  22 Kai Cheung Road
  Kowloon Bay
  Kowloon, HONG KONG

- City Chain (Shanghai) Company Limited
  Ting Zi Jian, 2/F
  No. 364 Huaihai Zhong Road, Shanghai
  PRC

- Xiong Teng (Shanghai) Trading Co Ltd
  Room 1402, 6 Ji Long Road
  Shanghai Waigaoqiao Free Trade Zone
  PRC

- City Chain (Guangdong) Company Limited
  Room 607A, Ronghui Building
  302 Zhicheng Road
  Guangzhou Economic & Technological
  Development District
  Guangzhou

- Baoshi (Guangdong) Company Limited
  Room 607B, Ronghui Building
  302 Zhicheng Road
  Guangzhou Economic & Technological
  Development District
  Guangzhou

## TAIWAN

Retail and Trading

- Thong Tai (Taiwan) Company Limited
  19/F., No. 102
  Sung Lung Road
  Taipei (110)
  TAIWAN

## MACAU

Retail and Trading

- City Chain (Macau) Co Ltd
- Optical 88 (Macau) Ltd
  Avenida da Praia Grande
  No. 429, 25° andar D., Macau

## MALAYSIA

Retail and Trading

- City Chain (M) Sdn Bhd
- Optical 88 Eyecare (M) Sdn Bhd
  Unit 10.01, 10th Floor
  MCB Plaza, 6 Changkat Raja Chulan
  50200 Kuala Lumpur
  MALAYSIA

## THAILAND

Retail and Trading

- City Chain (Thailand) Co Ltd
- Optical 88 (Thailand) Co Ltd
  47/543-544, Fl. 6 Jeneva Building
  Moo 3, Chaeng Wattana Road
  Ban-Mai, Pak-Kred
  Nonthaburi 11120
  THAILAND

## SINGAPORE

Equity Investment, Retail and Trading

- Stelux Watch Holdings Ltd (in member's voluntary liquidation)
- City Chain Stores (S) Pte Ltd
- Optical 88 (S) Pte Ltd
  315 Outram Road #10-03
  Tan Boon Liat Building
  Singapore 169074
  SINGAPORE

## SWITZERLAND

Watch Assembling and Trading

- Universal Geneve S.A.
- Solvil et Titus S.A.
- Pronto Watch S.A.
  6 Route des Acacias
  1227 Les Acacias – Geneve
  SWITZERLAND

web site

http://www.irasia.com/listco/hk/stelux