STELUX Holdings International Limited

寶光實業(國際)有限公司*

incorporated in Bermuda with limited liability
Website: http://www.irasia.com/listco/hk/stelux
Stock Code: 84

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31ST MARCH 2006

The directors of Stelux Holdings International Limited (the "Company") have pleasure in announcing the audited results of the Company and its subsidiaries (collectively the "Group") for the year ended 31st March 2006 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST MARCH 2006

	Note	2006 HK$'000	Restated 2005 HK$'000
Continuing operations:			
Revenues	2, 3	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		38,489	–
Other gains	4	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		(32,596)	(18,766)
Profit before taxation	5	183,411	231,864
Taxation credit/(charge)	6	12,090	(36,082)
Profit for the year from continuing operations	2	195,501	195,782
Discontinued operation:			
Loss from discontinued operation	7	(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	8	511,821	33,297
		HK cents	*HK cents*
Earnings per share from continuing operations	9		
– basic		20.51	20.67
– diluted		20.51	20.62
Loss per share from discontinued operation	9		
– basic		(0.80)	(2.61)
– diluted		(0.80)	(2.61)

* *For identification purpose only*

CONSOLIDATED BALANCE SHEET
AT 31ST MARCH 2006

	Note	2006 HK$'000	Restated 2005 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		130,380	154,670
Investment properties		34,340	712,350
Prepayment of lease premium		146,877	162,830
Intangible assets		22,036	17,052
Deferred tax assets		21,840	32,875
Investment securities		–	4,299
Available-for-sale financial assets		10,920	–
		366,393	1,084,076
Current assets			
Stocks		456,827	388,849
Debtors and prepayments	*10*	303,926	292,830
Marketable securities		–	83
Financial assets at fair value through profit or loss		90,851	–
Bank balances and cash		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		95,134	95,134
Reserves		525,873	844,529
Proposed final dividend	*8*	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		3,486	47,985
Borrowings		35,976	279,719
		39,462	327,704
Current liabilities			
Creditors and accruals	*11*	311,120	284,436
Taxation payable		26,687	15,770
Current portion of borrowings		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

Notes:

1. **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.

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.

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.

(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 operations in the financial statements. 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 operations are stated at the lower of carrying amount and fair value less costs to sell.

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 *HK$'000*	**HKAS 32&39** *HK$'000*	**HKAS 38** *HK$'000*	**Total** *HK$'000*
Other operating expenses	–	–	(2,298)	(2,298)
Profit attributable to equity holders of the Company	–	–	2,298	2,298
	HK cents	*HK cents*	*HK cents*	*HK cents*
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.

Consolidated balance sheet
As at 31st March 2006

	Increase/(decrease)			
	HKAS 17 *HK$'000*	**HKAS 32&39** *HK$'000*	**HKAS 38** *HK$'000*	**Total** *HK$'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. Segment information

Primary reporting format – business segments

	For the year ended and as at 31st March 2006					
	Continuing operations				Discontinued operation	
	Retail and trading				Retail and trading	Group
	Watch	Optical	Property *(note a)*	Sub-total	Hipo.Fant *(note b)*	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				12,090	(80)	12,010
Profit/(loss) after taxation				195,501	(7,662)	187,839
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	2,058		615	
Depreciation	30,136	16,817	3,348		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	–		–	

Note:

(a) Stelux House, which was included in the Property segment in 2005, was disposed on 30th March 2006.

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

For the year ended and as at 31st March 2005

	Continuing operations				Discontinued operation	
	Retail and trading				Retail and trading	Group
	Watch HK$'000	Optical HK$'000	Property HK$'000	Sub-total HK$'000	Hipo.Fant HK$'000	Total HK$'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				(36,082)	–	(36,082)
Profit/(loss) after taxation				195,782	(24,762)	171,020
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	–		–	

Secondary reporting format – geographical segments

Continuing operations

For the year ended and as at 31st March

	2006				2005			
	Revenues HK$'000	Segment results HK$'000	Total assets HK$'000	Capital expenditure HK$'000	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	693,234	214,251	1,325,558	9,995
South East and Far East Asia	551,289	62,184	530,132	37,943	409,981	55,821	346,856	34,935
Europe	91,988	(9,180)	49,791	2,210	168,005	14,981	72,667	2,888
North America	6,951	2,266	113	–	21,738	9,689	260	–
Mainland China	59,741	(11,346)	71,483	6,660	31,827	(3,388)	64,253	4,275
	1,527,240	193,764	1,358,765	73,269	1,324,785	291,354	1,809,594	52,093

Discontinued operation

For the year ended and as at 31st March

	2006				2005			
	Revenues HK$'000	Segment results HK$'000	Total assets HK$'000	Capital expenditure HK$'000	Revenues HK$'000	Segment results HK$'000	Total assets HK$'000	Capital expenditure HK$'000
Hong Kong	84,938	(3,529)	2,074	615	73,667	(22,208)	17,131	511
South East and Far East Asia	1,164	6	16	–	5,937	(1,682)	333	–
Mainland China	4,646	(3,706)	–	–	9,115	(603)	3,559	–
	90,748	(7,229)	2,090	615	88,719	(24,493)	21,023	511

3. **Revenues**

	2006	2005
	HK$'000	*HK$'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 4) to conform with the presentation of current year.

4. **Other gains**

	2006	2005
	HK$'000	*HK$'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	15,150	–
Sundries	5,473	5,786
	89,343	23,293

5. **Expenses by nature**

Expenses included in profit before taxation from continuing operations are analysed as follows:

	2006	2005
	HK$'000	*HK$'000*
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
Amortisation of trademarks	–	2,378
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

Expenses included in profit before taxation from discontinued operation are analysed as follows:

	2006	2005
Cost of stocks sold	53,304	36,359
Depreciation of property, plant and equipment		
– Owned	1,338	3,163
– Leased	35	70
(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

Note:

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

(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 realizable value.

6. **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	34,018	(23,595)
Taxation credit/(charge)	12,090	(36,082)
Discontinued operation:		
Current taxation		
– Overseas profits tax	(45)	–
Deferred taxation	(35)	–
	(80)	–

7. 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:

	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	(7,582)	(24,762)
Taxation charge	(80)	–
Loss for the year	(7,662)	(24,762)

8. 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 *(note a)*	26,638	23,784
Special, paid of HK$0.5 per ordinary share *(note b)*	475,670	–
	511,821	33,297

Note:

(a) At a meeting held on 19th July 2006, the directors proposed a final dividend of HK$0.028 (2005: HK$0.025) per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st March 2007.

(b) The special dividend of HK$0.50 per ordinary share is declared pursuant to disposal of Stelux House, which is one of the prerequisite conditions for the completion of the disposal.

9. Earnings per share

Basic

Basic earnings/(loss) per share is calculated by dividing the Group's profit/(loss) attribatable 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 operations (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 operations 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)

10. Debtors and prepayments

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

Note:

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

11. Creditors and accruals

	2006	2005
	HK$'000	*HK$'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	166,155	152,508
	311,120	284,436

12. Commitments

	2006	2005
	HK$'000	*HK$'000*
Capital commitments for property, plant and equipment:		
Contracted but not provided for	842	1,825
Authorised but not contracted for	–	420
	842	2,245

13. Contingent liabilities

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

MANAGEMENT DISCUSSION AND ANALYSIS

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	Profit	Dividend	Special Dividend
	(HK$ million)	*(HK$ million)*	*(HK$)*	*(HK$)*
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 investment 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.

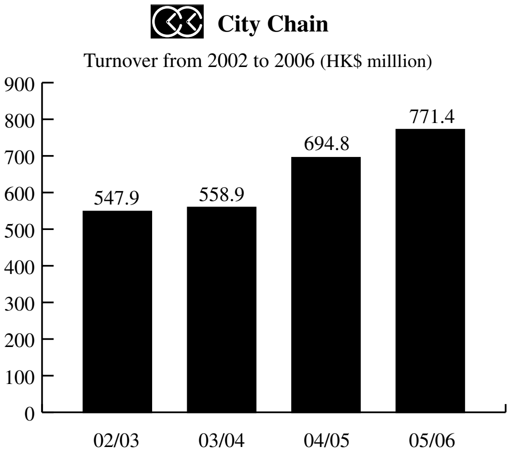
The decrease in profit, despite an increase in turnover was due to several factors – Higher Hong Kong shop rentals; high oil prices which dampened buying sentiment (particularly, in the South East Asian markets); initial setting up costs for our mainland China expansion (which are higher compared to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

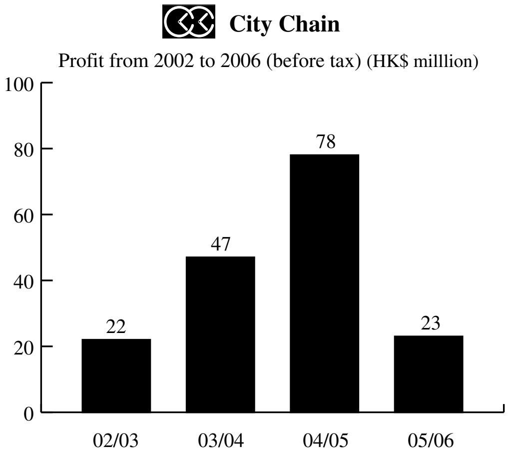
Additionally, due to the politically induced and volatile retail market in Taiwan, "CITY CHAIN" retail operations there were closed down and a new wholesale business unit was set up during the year. We have taken a prudent approach and made a provision for the cessation of the retail business. Together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

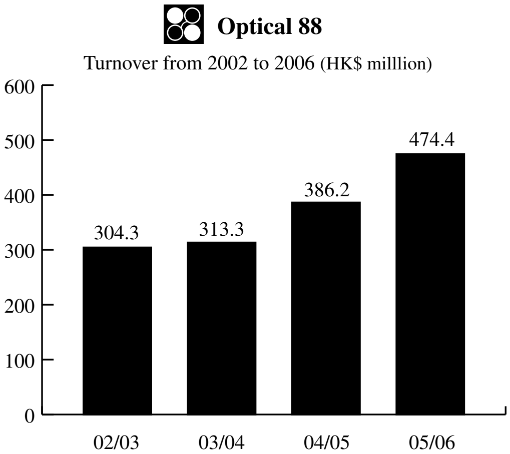


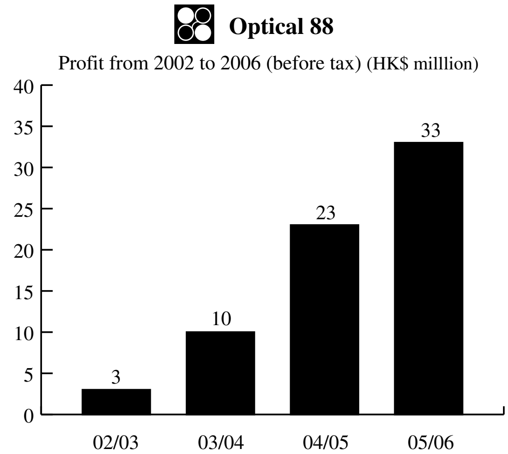


OPTICAL RETAIL BUSINESS

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.

CAPITAL STRUCTURE OF THE GROUP

There was no change in the capital structure of the Group during the year.

CHANGES IN THE COMPOSITION OF THE GROUP DURING THE YEAR

During the year, 100%, 96% and 94.4% equity interests in respect of Thong Sia Company (Singapore) Pty Limited, Thong Sia Watch Company Limited and Thong Sia Sdn Bhd were acquired at a total consideration of HK$55.3 million. Details of the acquisition were disclosed in a circular to shareholders on 31st August 2005. As the acquisition of these three companies was completed on 30th September 2005, the profit and loss during the period from 1st October 2005 to 31st March 2006 and the assets and liabilities as at 31st March 2006 were incorporated into the Group's financial statements for the year ended 31st March 2006.

There were no other significant acquisitions during the year.

NUMBER AND REMUNERATION OF EMPLOYEES, REMUNERATION POLICIES, BONUS AND TRAINING SCHEMES

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.

DETAILS OF THE CHARGES ON GROUP ASSETS

At 31st March 2006, certain of the Group's freehold land and buildings amounting to HK$14 million (2005: HK$56 million), investment properties amounting to HK$33 million (2005: HK$711 million) and leasehold land amounting to HK$101 million (2005: HK$109 million) were pledged to secure banking facilities granted to the Group.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 1st September 2006 (Friday) to 6th September 2006 (Wednesday) both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the entitlement to the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Registrar, Computershare Hong Kong Investor Services Limited, 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 31st August 2006 (Thursday). The final dividend will be paid on or about 21st September 2006 (Thursday).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

CORPORATE GOVERNANCE

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

Code Provision A.4.2

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-Laws 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 Chief Executive Officer, shall retire from office by rotation at each annual general meeting.

Code Provision B.1.1

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 and CEO 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.

Code Provision B.1.3

This Code Provision 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 do not include reviewing and determining the remunerations 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.

Code Provision E.1.2

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.

Audit Committee

Pursuant to the Listing Rules, the Company has set up an audit committee with written terms of reference comprising three independent non-executive directors, namely Mr. Kwong Yiu Chung, Mr. Wu Chun Sang and Dr. Lawrence Wu Chi Man (appointed on 28th October 2005). The principal responsibilities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls. A meeting of the Audit Committee was held on 12th July 2006 to review the Group's results for the year ended 31st March 2006 before they were presented to the board of directors for approval.

Remuneration Committee

The Remuneration Committee held two meetings on 28th March 2006 and 24th April 2006 after it was set up to determine the remuneration packages including bonus schemes of certain executive directors.

DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

A detailed announcement of the results of the Group for the year ended 31st March 2006 containing all the information required by paragraph 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange (http://www.hkex.com.hk) in due course.

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

Hong Kong, 19th July 2006

Directors of the Company as at the date hereof:

Executive directors:
Wong Chong Po *(Chairman)*, Chumphol Kanjanapas (alias Joseph C. C. Wong) *(Vice Chairman and Chief Executive Officer)*, Anthony Chu Kai Wah, Stan Lee Shu Chung and Vincent Lau Tak Bui

Non-Executive directors:
Sakorn Kanjanapas, Kwong Yiu Chung *(independent)*, Wu Chun Sang *(independent)* and and Lawrence Wu Chi Man *(independent)*.