THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in STELUX Holdings International Limited ("Company"), you should at once hand this circular to the purchaser or to the transferee or to the bank, licensed securities dealer or other agent through whom the sale or the transfer was effected for transmission to the purchaser or the transferee.

STELUX Holdings International Limited

寶光實業(國際)有限公司*

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

(Incorporated in Bermuda with limited liability)

(Stock Code: 84)

CONNECTED TRANSACTION AND VERY SUBSTANTIAL DISPOSAL DISPOSAL OF PROPERTY AND SPECIAL DIVIDEND

Financial Adviser to STELUX Holdings International Limited

MANAGEMENT CAPITAL LIMITED

Independent financial adviser to the Independent Board Committee and Independent Shareholders of STELUX Holdings International Limited

ACCESS CAPITAL

A letter from the Independent Board Committee is set out on page 17 of this circular.

A letter from Access Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 18 to 26 of this circular.

A notice convening a special general meeting of the Company to be held at 5th Floor, Stelux House, 698 Prince Edward Road East, San Po Kong, Kowloon, Hong Kong on 15 March 2006 at 11:00 a.m. is set out on pages 124 to 125 of this circular. A form of proxy for use at the special general meeting is enclosed. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so wish.

* *For identification purpose only*

24 February 2006

CONTENTS

In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:

"Access Capital"	Access Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Agreement and a licensed corporation under the SFO permitted to engage in types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO
"Agreement"	the share sale agreement dated 20 December 2005 entered into between the Company and Yee Hing, pursuant to which the Company has agreed to dispose of the Property for a cash consideration of HK$820,000,000 through the disposal of the entire issued share capital of Stelux (BVI) following the Reorganisation
"associate"	has the meaning as given to it in the Listing Rules
"Board"	The board of Directors
"Company"	STELUX Holdings International Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
"Completion"	The completion of the transactions contemplated under the Agreement
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the aggregate consideration of HK$820,000,000 for the Disposal
"Directors"	the directors (including the independent non-executive directors) of the Company
"Disposal"	the disposal of the entire issued share capital of Stelux (BVI) by the Company to Yee Hing following the completion of the Reorganisation
"Estate"	the estate of Mr Wong Chue Meng, which holds approximately 70% of the issued share capital of the Company (through various holding companies including Yee Hing which is directly interested in approximately 44% of the issued share capital of the Company) as at the date hereof
"Group"	the Company and its subsidiaries
"Hong Kong"	Hong Kong Special Administrative Region of the People's Republic of China

"IOM"	International Optical Manufacturing Company Limited, a company incorporated in Hong Kong with limited liability, which is owned as to 60% by Yee Hing and as to 40% by a company controlled as to 38% by the Estate
"Independent Board Committee"	the independent board committee of the Company comprising Mr Kwong Yiu Chung, Mr Wu Chun Sang and Dr Lawrence Wu Chi Man, which has been formed by the Board to advise the Independent Shareholders in respect of the transactions contemplated under the Agreement
"Independent Shareholders"	the Shareholders other than Yee Hing and its associates
"Jones Lang LaSalle"	Jones Lang LaSalle, independent property valuers
"Latest Practicable Date"	20 February 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Office Premises"	2,819 square metres (30,704 square feet) office premises located on the 27th floor, the 28th floor (portion) and the 5th floor (portion) and 12 carparking spaces located on basements 1 and 3 of the Property
"PricewaterhouseCoopers"	PricewaterhouseCoopers, certified public accountants
"Property"	the piece or parcel of land registered in the Land Registry as New Kowloon Inland LOT NO.4790 together with the messuages erections and buildings thereon now known as "Stelux House" at 698 Prince Edward Road East, San Po Kong, Kowloon, Hong Kong
"Remaining Group"	The Group immediately after Completion
"Reorganisation"	a group reorganisation of the Company which is being undertaken by the Company, upon the completion of which the sole asset of Stelux (BVI) will be the entire issued share capital of SHL and SHL, which is the current registered owner of 100% interest in the Property, will in turn own 100% interest in the Property as its sole asset
"Services"	The main services to be provided by SPAL to SHL pursuant to the Services Agreement and following the Disposal including (i) contract administration with respect to contracts entered into between SHL and third parties from time to time; (ii) property agency liaison and tenancy management; (iii) management of the property manager of Stelux House; and (iv) other miscellaneous administrative services

"Services Agreement"	a management and property agency liaison services agreement to be entered into between SPAL (as the provider of the Services) and SHL (as owner of the Property) in respect of the provision of the Services
"SFO"	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	a special general meeting of the Company to be convened to approve the Agreement and the transactions contemplated thereunder
"Stelux (BVI)"	Stelux Holdings International (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of the Company prior to Completion, is an intermediate holding company of the Group and the entire asset of Stelux (BVI) is a 100% equity shareholding in SHL
"SHL"	Stelux Holdings Limited, a company incorporated under the laws of Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company prior to Completion, is an intermediate holding company of the Group
"Share(s)"	Ordinary share(s) of par value of HK$0.10 each in the issued share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"SPAL"	Stelux Properties Agency Limited, a company incorporated under the laws of Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
"Special Dividend"	a special dividend of HK$0.50 per Share payable to Shareholders subject to Completion
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder"	has the meaning ascribed to it under the Listing Rules
"Tenancy Agreements"	tenancy agreements to be entered into between a wholly-owned subsidiary of the Company (as tenant) and SHL (as landlord) on the date of Completion in respect of the Office Premises
"Thong Sia Companies"	Thong Sia Company (Singapore) Pte Limited, Thong Sia Watch Company Limited and Thong Sia Sdn Bhd, details of which were set out in the announcement of the Company dated 10 August 2005

"Yee Hing"	Yee Hing Company Limited, a company incorporated under the laws of Hong Kong with limited liability, and the substantial shareholder of the Company. Yee Hing is directly interested in approximately 44% of the issued share capital of the Company
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"%"	Percentage

STELUX Holdings International Limited

寶光實業(國際)有限公司 *

website: http://www.irasia.com/listco/hk/stelux
(Incorporated in Bermuda with limited liability)
(Stock Code: 84)

Board of Directors
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
Wong Yuk Woon

Non-executive Directors:
Sakorn Kanjanapas
Kwong Yiu Chung *(independent)*
Wu Chun Sang *(independent)*
Lawrence Wu Chi Man *(independent)*

Registered office:
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

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

24 February 2006

To the Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION AND VERY SUBSTANTIAL DISPOSAL
DISPOSAL OF PROPERTY
AND
SPECIAL DIVIDEND

1. INTRODUCTION

The Company announced that on 20 December 2005, the Company entered into the Agreement with Yee Hing, for the disposal of the Property to Yee Hing at a cash consideration of HK$820,000,000 through the disposal of the entire issued share capital of Stelux (BVI) after the completion of the Reorganisation. Following the completion of the Reorganisation, the sole asset of Stelux (BVI) will be the entire issued share capital of SHL and SHL, which is the current registered owner of 100% interest in the Property, will in turn own 100% interest in the Property as its sole asset.

Approximately HK$320,000,000 of the proceeds of the Disposal will be used to repay the outstanding mortgage loans in relation to the Property. Subject to Completion, the Board has resolved to recommend distribution of a Special Dividend of approximately HK$475,700,000 (HK$0.50 per Share) to Shareholders.

* *For identification purpose only*

The Disposal constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules, and a very substantial disposal for the Company under Chapter 14 of the Listing Rules. Therefore it is subject to the approval of Independent Shareholders at the SGM by poll under Chapter 14 and Chapter 14A of the Listing Rules.

Upon Completion, both Stelux (BVI) and SHL will cease to be the subsidiaries of the Company and their company names will be changed such that "Stelux" will not be used. Following the Disposal, Stelux (BVI) will continue to own the Property indirectly through SHL, the following agreements will be entered into upon Completion:

(a) Tenancy Agreements between a wholly-owned subsidiary of the Company (as tenant) and SHL (as landlord) in respect of the Office Premises; and

(b) Services Agreement between SPAL (as the provider of the Services) and SHL (as owner of the Property) in respect of the provision of the Services.

The renting of the Office Premises and the transactions contemplated under the Services Agreement constitute continuing connected transactions for the Company. Each of the aggregate annual cap amounts for the transactions contemplated under the Tenancy Agreements and the Services Agreement represents less than 2.5% of the applicable percentage ratios under Rule 14.07 of the Listing Rules. As such, the transactions contemplated under the Tenancy Agreements and the Services Agreement will be classified as continuing connected transactions for the Company and (according to Rule 14A.34 of the Listing Rules) will be subject to reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Listing Rules and exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising Mr Kwong Yiu Chung, Mr Wu Chun Sang and Dr Lawrence Wu Chi Man, has been formed by the Board to advise the Independent Shareholders in respect of the transactions contemplated under the Agreement. Access Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and Independent Shareholders in respect of the transactions contemplated under the Agreement.

The purpose of this circular is to (i) provide the Shareholders with further details of the Agreement and the Special Dividend as recommended by the Board; (ii) set out the advice from the Independent Board Committee to the Independent Shareholders; (iii) set out the advice from Access Capital to the Independent Board Committee and the Independent Shareholders in respect of the Agreement; and (iv) give the Shareholders the notice convening the SGM and other information as required under the Listing Rules.

Your attention is hereby specifically drawn to pages 124 to 125 of this circular where you will find a notice dated 24 February 2006 convening the SGM to be held on 15 March 2006. **Any Shareholder, including but not limited to Yee Hing, with a material interest in the Agreement and its associates (who collectively controlled, as at the Latest Practicable Date, approximately 70% of the issued share capital of the Company) will abstain from voting in respect of any resolution in relation to the Agreement at the SGM. Any vote of the Independent Shareholders at the SGM will be taken on a poll.**

2. THE AGREEMENT

Date

20 December 2005

Parties

Purchaser:	Yee Hing, a company incorporated under the laws of Hong Kong with limited liability and is principally engaged in investment holding, the substantial shareholder of the Company with a direct shareholding of approximately 44% in the Company and thus a connected person of the Company
Vendor:	the Company

Assets to be disposed of through the disposal of the entire issued share capital of Stelux (BVI) after the completion of the Reorgansation

The Property comprises the building known as Stelux House located at 698 Prince Edward Road East, San Po Kong, Kowloon, Hong Kong and a parcel of ground situate, lying and being at Hong Kong and registered in the Land Registry as lnland LOT NO. 4790 with a registered site area of approximately 2,098 square metres (22,580 square feet). The Property will be sold subject to existing tenancies.

Stelux House was built in 1998. It comprises a 26-storey office building with retail shops on the ground floor and mezzanine floor and loading and unloading facilities and 114 carparking spaces on three basement levels. The total lettable gross floor area of Stelux House is approximately 30,547 square metres (328,809 square feet).

Consideration

The Consideration was reached after arm's length negotiations between the parties with reference to the valuations of the Property of HK$800,000,000 and HK$820,000,000 both made by Jones Lang LaSalle, independent property valuers, as at 30 September 2005 and 20 December 2005 respectively.

Under the Agreement, an initial deposit of HK$10,000,000 was paid in cash by Yee Hing on 20 December 2005 and the balance of the Consideration of HK$810,000,000 will be payable in cash upon Completion. Completion is expected to take place on or before 31 March 2006.

Rental deposits under the existing tenancies of the Property as of the date of Completion will be deducted from the balance of the Consideration payable upon Completion. As at the Latest Practicable Date, the rental deposits under the existing tenancies of the Property amounted to approximately HK$7,900,000.

Completion

Completion is conditional upon the fulfillment of, amongst others, the following conditions on or before the expected completion date of 31 March 2006:

(a) the transactions contemplated under the Agreement having been approved by Independent Shareholders at the SGM by poll;

(b) financing to fund the Disposal having been obtained by Yee Hing;

(c) the Reorganisation, including the obtaining of all requisite third party consents, having been completed;

(d) a special dividend to Shareholders of HK$0.50 per Share having been approved by Independent Shareholders at the SGM by poll; and

(e) a good title to the Property having been showed and proved.

If any of the abovementioned conditions is not fulfilled or waived on or before 31 March 2006 or such later date as the Company and Yee Hing may agree, the Agreement shall cease to have effect and none of the parties thereto shall have any claim against the other save for the deposit of HK$10,000,000, which will be refunded to Yee Hing with interest, and certain clauses in the Agreement survive cessation.

3. SPECIAL DIVIDEND

At a meeting of the Board held on 10 February 2006, the Directors, subject to approval being obtained from the Independent Shareholders at the SGM to be held on 15 March 2006, resolved to declare the payment of the Special Dividend of HK$0.50 per Share on or about 31 March 2006 to Shareholders whose names appear on the register of members of the Company on 28 March 2006. A separate announcement will be made by the Company in due course when the date of payment of the Special Dividend can be confirmed.

The Directors approved the declaration of the Special Dividend after taking into consideration, among other factors, the cash reserves of the Company following Completion and the distribution of the Special Dividend being a condition precedent to Completion.

To ascertain the entitlement of Shareholders to the Special Dividend, the register of members of the Company will be closed from 23 March 2006 to 28 March 2006, both days inclusive, during which period no transfer of shares will be registered. To qualify for the Special Dividend, Shareholders should ensure that transfers are lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:00 p.m. on 22 March 2006.

4. INFORMATION ON THE PROPERTY

Before the completion of the Reorganisation, Stelux (BVI) is holding other assets and liabilities in addition to the Property. As such, the current financial information of Stelux (BVI) is not relevant in the context of the Disposal. The gross rental income, and profit before and after taxation in respect of the Property for the two years ended 31 March 2005 and the six months ended 30 September 2005 extracted from the unaudited management accounts of the Group are set out as follows:

	For the year ended 31 March		For the six months ended 30 September
	2005	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Gross rental income	22,566	30,308	13,228
Profit before surplus on revaluation of the Property and taxation	3,446	6,848	38,644
Surplus on revaluation of the Property	145,600	27,300	36,400
Profit after surplus on revaluation of the Property and before taxation	149,046	34,148	75,044
Profit after taxation and after surplus on revaluation of the Property	123,971	27,225	67,630

5. EFFECT OF THE DISPOSAL

According to the unaudited management accounts of the Group, the book value of the Property was approximately HK$743,385,000 as at 31 March 2005. The unaudited book value of the Property was approximately HK$779,169,000 as at 30 September 2005 after taking into account the valuation conducted by Jones Lang LaSalle, independent property valuers, on the Property. Accordingly, the Disposal at a consideration of HK$820,000,000 will give rise to a gain of approximately HK$40,831,000 (subject to audit for the year ending 31 March 2006) for the Group based on its book value as at 30 September 2005 before the deduction of expenses directly attributable to the Disposal (approximately HK$6,000,000). The deferred tax liabilities of the Group in relation to the holding of properties will also be reduced by approximately HK$54,590,000 as at 30 September 2005 following the Disposal.

As at 30 September 2005, the Group recorded an audited consolidated net asset value of approximately HK$1,010,000,000. Assuming the Disposal had been completed as at 30 September 2005, the unaudited pro forma consolidated net asset value of the Group on that date would have been approximately HK$623,721,000. This represents a pro forma decrease in the consolidated net asset value of the Group of approximately HK$386,279,000 as at 30 September 2005.

Approximately HK$320,000,000 of the proceeds of the Disposal will be used to repay the outstanding mortgage in relation to the Property. Assuming the Disposal had been completed as at 30 September 2005, the Group's total bank borrowings would have been reduced from approximately HK$601,440,000 on that date to approximately HK$281,440,000 after deducting the aforesaid mortgage repayment of approximately HK$320,000,000. Assuming the Disposal had taken place on 30 September 2005, the Group's gearing ratio, which was calculated on the basis of total bank borrowings to shareholders' funds, would have decreased from approximately 59.5% as at 30 September 2005 to approximately 45.1%.

Under the Agreement, the aggregate liability of the Company to Yee Hing with respect to tax warranties (within 7 years from the date of Completion) and other general warranties and indemnities (within 3 years from the date of Completion) that are normally given by a seller to a buyer for the disposal of property assets and shares of a company shall not exceed HK$200,000,000.

The Directors consider that the cash flow and operating results (before the surplus or deficit on revaluation of the Property) generated from the Property were not significant to the Group. Although the Group will not generate rental income from the Property following the Disposal, the Group will be able to save on operating expenses in relation to the Property and interest expenses with respect to the mortgage loans in relation to the Property which will be repaid after the Disposal. The Group's debt gearing position would also be improved as a result of the Disposal.

The Directors believe that following the Disposal, the cash flow position of the Group will continue to be satisfactory and will not be adversely affected by the loss of rental income from the Property. The Disposal will have no material adverse effect on the overall business operations of the Group. Accordingly and as required under Rule 13.24 of the Listing Rules, the Directors confirm that following the Disposal the Company will continue to have sufficient operations.

6. REASONS FOR AND BENEFITS OF ENTERING INTO THE AGREEMENT

The Group is principally engaged in the business of retailing and wholesaling of watches and optical products, and property investment. One of the strategies of the Group has been to focus on its strengths, the watch and optical businesses. To this end, the Company has acquired a majority interest in each of the Thong Sia Companies as announced on 10 August 2005, expanding the business into wholesaling of watches, clocks and optical products in Asia. The divestment of non-core assets such as the Property is a step taken by the Company in line with its existing business strategies. Through the Disposal, the Directors believe that the future operating results of the Group will no longer be directly affected by fluctuations in the property market.

According to the valuations conducted by Jones Lang LaSalle, independent property valuers, the Property was valued at HK$760,000,000 as at 31 March 2005 and HK$800,000,000 as at 30 September 2005. The Company engaged Jones Lang LaSalle to revalue the Property again and which was valued at HK$820,000,000 as at 20 December 2005 (the valuation report dated 24 February 2006 is included in Appendix IV to this circular). With the recent upturn in Hong Kong's property market in the past some 12 months, the Directors consider it a good opportunity for the Group to dispose of the Property at a profit.

The Directors believe that the divestment of non-core assets by the Company would enhance the shareholders' value of the Company as the core business of the Group is retail and trading in nature i.e. the profitability of the Group is not directly related to the asset size of the Group and the return of sale proceeds of the Disposal to Shareholders after repayment of the related mortgage loans will benefit the Shareholders.

As the mortgage loans in relation to the Property will be repaid after the Disposal, the Group will be able to save on interest expenses especially given the recent interest rate hike. The Group's debt gearing position would also be improved as a result of the Disposal.

The Directors are of the view that the Disposal is in the interests of the Company and the Shareholders as a whole, and the terms of the Agreement are fair and reasonable and on normal commercial terms.

7. INTENDED USE OF PROCEEDS

The Board intends to use the proceeds from the Disposal as follows:

(a) as to approximately HK$320,000,000 for the repayment of the outstanding mortgage loans in relation to the Property;

(b) as to approximately HK$475,700,000 (HK$0.50 per Share) for the distribution of a special dividend to Shareholders after Completion; and

(c) after the deduction of the rental deposits under the existing tenancies of the Property, the balance of the proceeds of the Disposal as to approximately HK$16,400,000 for general working capital purposes including the payment of expenses in relation to the Disposal such as legal fees, valuation fees and other professional fees of approximately HK$6,000,000 in aggregate.

8. CONNECTED TRANSACTION AND VERY SUBSTANTIAL DISPOSAL WITH RESPECT TO THE AGREEMENT

Yee Hing, with a direct equity interest of approximately 44% in the Company, is the substantial shareholder of the Company and therefore a connected person of the Company for the purpose of the Listing Rules. Based on the applicable size tests performed regarding the Disposal, the relevant percentage ratio under Rule 14.07 of the Listing Rules exceeds 75%. Accordingly, the Disposal constitutes a connected transaction and a very substantial disposal for the Company under Chapter 14 and Chapter 14A the Listing Rules. As a result, the Agreement will be subject to the approval of the Independent Shareholders at the SGM by poll. **Any Shareholder, including but not limited to Yee Hing, with a material interest in the Agreement and its associates (who collectively controlled, as at the Latest Practicable Date, approximately 70% of the issued share capital of the Company) will abstain from voting in respect of any resolution in relation to the Agreement at the SGM. Any vote of the Independent Shareholders at the SGM will be taken on a poll.**

The Independent Board Committee, comprising Mr Kwong Yiu Chung, Mr Wu Chun Sang and Dr Lawrence Wu Chi Man, has been formed by the Board to advise the Independent Shareholders in respect of the transactions contemplated under the Agreement. Access Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and Independent Shareholders as to whether the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

9. CONTINUING CONNECTED TRANSACTIONS FOLLOWING THE DISPOSAL

RENTAL OF THE COMPANY'S EXISTING OFFICE PREMISES AND CARPARKING SPACES AT THE PROPERTY FROM SHL

Upon Completion, a wholly-owned subsidiary of the Company, as tenant, will enter into tenancy agreements (the "Tenancy Agreements") with SHL as landlord in respect of the renting of the Office Premises. Details of the major terms of the Tenancy Agreements are set out below.

Details of the Tenancy Agreements

Date:	Date of Completion
Parties:	SHL (as landlord), which will become a wholly-owned subsidiary of Yee Hing upon Completion and is principally engaged in investment holding and property investment; and a wholly-owned subsidiary of the Company (as tenant)
Premises:	2,819 square metres (30,704 square feet) office premises located on the 27th floor, the 28th floor (portion) and the 5th floor (portion) and 12 carparking spaces located on basements 1 and 3 of the Property
Duration:	from the date of Completion up to 31 March 2008 (inclusive), if Completion takes place before 31 March 2006, or up to 31 March 2009 (inclusive) in the event that Completion takes place on or after 31 March 2006
Rent:	HK$373,000 (exclusive of management fee, rates and government rent) per calendar month payable in advance on the first day of each calendar month
Rent free period:	one month per year during the duration of the Tenancy Agreements
Option to renew:	an option exercisable by the tenant to renew the tenancies for a further term of three years at the then prevailing open market rent

Basis for determining the aggregate annual rent regarding the Tenancy Agreements

The monthly rent excluding management fee, rates and government rent was determined by reference to those payable by other tenants of the Property and the size of the office premises and number of carparking spaces. The rent payable by the Company is in line with prevailing market rent based on an independent valuation by Jones Lang LaSalle made on 12 December 2005.

The Directors consider that the terms of the Tenancy Agreements are fair and reasonable and are on normal commercial terms.

Reasons for and benefits of entering into the Tenancy Agreements

The Group has been using the Office Premises at the Property since 1998. The Directors consider it to be in the interests of the Company and the Shareholders as a whole for the Company to rent back the Office Premises from SHL after Completion as long as rental rates and other rental terms are in line with market rates and relocation costs could be avoided.

The Directors consider that the Tenancy Agreements are in the interests of the Company and the Shareholders as a whole.

Continuing connected transactions regarding the Tenancy Agreements

Upon Completion, SHL will be a wholly-owned subsidiary of Yee Hing. Accordingly, SHL will be a connected person of the Company upon Completion 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 contemplated under the Tenancy Agreements will be classified as continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

The Company proposes to set the aggregate annual cap amount for the transactions contemplated under the Tenancy Agreements for each of the three financial years ending 31 March 2008 or 31 March 2009 (as the case may be) at HK$4,500,000. As such aggregate annual cap amount represents less than 2.5% of the applicable percentage ratios under Rule 14.07 of the Listing Rules, the transactions contemplated under the Tenancy Agreements (according to Rule 14A.34 of the Listing Rules) will be subject to reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Listing Rules and exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Tenancy Agreements will only be entered into upon Completion after the Independent Shareholders have approved the Agreement at the SGM by poll.

PROVISION OF MANAGEMENT AND PROPERTY AGENCY LIAISON SERVICES TO SHL

Upon Completion, SPAL, as the provider of the Services, will enter into a management and property agency liaison services agreement (the "Services Agreement") with SHL as the owner of the Property in respect of the provision of the Services. Details of the major terms of the Services Agreement are set out below.

Details of the Services Agreement

Date:	Date of Completion
Parties:	SHL as owner of the Property (upon Completion) SPAL, a wholly-owned subsidiary of the Company, as the provider of the Services and is principally engaged in property agency and management
Services:	The main services to be provided by SPAL to SHL following the Disposal include (i) contract administration with respect to contracts entered into between SHL and third parties from time to time; (ii) property agency liaison and tenancy management; (iii) management of the property manager of Stelux House; and (iv) other miscellaneous administrative services
Duration:	from the date of Completion up to 31 March 2008 (inclusive), if Completion takes place before 31 March 2006, or up to 31 March 2009 (inclusive) in the event that Completion takes place on or after 31 March 2006

Fee:	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) will be subject to increment with reference to the actual increase in costs incurred by the Group relating to the Services by not more than 10% each year

Basis for determining the aggregate annual fee regarding the Services Agreement

The annual fee for the first year under the Services Agreement is based on the total annual costs of approximately HK$2,000,000 to be incurred by the Group in providing the Services. Under the Services Agreement, SHL and SPAL shall negotiate and agree in good faith to increase the annual fee by not more than 10% each year with reference to the actual increase in costs (including but not limited to related staff salaries) incurred by the Group with respect to the Services.

The Directors consider that the terms of the Services Agreement are fair and reasonable and are on normal commercial terms.

Reasons for and benefits of entering into the Services Agreement

SPAL has been providing the Services to SHL since 1998 and has accumulated the relevant knowledge and experience. Yee Hing has requested SPAL to continue to manage the Property upon Completion so as to maintain continuity and the quality of service. Accordingly, as part of the negotiation between Yee Hing and the Company regarding the Disposal, the Company has agreed to continue to provide the Services on behalf of Yee Hing following the Disposal.

In order to facilitate the transactions contemplated under the Agreement, the Directors consider it to be in the interests of the Company and the Shareholders as a whole for the Company to continue to provide the Services following the Disposal.

Continuing connected transactions regarding the Services Agreement

As SHL will be a connected person of the Company upon Completion, the transactions contemplated under the Services Agreement will be classified as continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

The Company proposes to set the annual cap amount for the transactions contemplated 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 31 March 2008 or 31 March 2009 (as the case may be). As such aggregate annual cap amounts represent less than 2.5% of the applicable percentage ratios under Rule 14.07 of the Listing Rules, the transactions contemplated under the Services Agreement (according to Rule 14A.34 of the Listing Rules) will be subject to reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Listing Rules and exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Services Agreement will only be entered into upon Completion after the Independent Shareholders have approved the Agreement at the SGM.

10. CHANGES IN THE EXISTING CONTINUING CONNECTED TRANSACTIONS OF THE COMPANY FOLLOWING THE DISPOSAL

RENTING OF OFFICE PREMISES AND CARPARKS TO CONNECTED PERSONS

As of the Latest Practicable Date, the Company is renting a portion of the office premises and some carparking spaces at the Property to IOM and Yee Hing for an aggregate monthly rental of HK$134,986 (representing approximately an aggregate annual sum of HK$1,619,832) and the said tenancies are currently classified as continuing connected transactions of the Company (please refer to the announcement made by the Company dated 9 August 2004 for more details). Since the Property will be sold subject to existing tenancies, the Company will no longer have any interest in the said tenancies upon Completion and therefore the said existing continuing connected transactions of the Company will no longer apply.

11. PROSPECTS

In September 2005, the Group completed the acquisition of a majority interest in each of the Thong Sia Companies – the sole distributor for Seiko watches, clocks and optical products in Hong Kong, Singapore and Malaysia from the substantial shareholder of the Company. The profits and turnover for this business will only be reflected in the second half of the financial year ending 31 March 2006.

The inclusion of Thong Sia Companies into the Group enhances the Group's leadership position in the Asian watch retail and wholesale industry. The Group believes that the synergy effect between Thong Sia Companies and City Chain will boost prospects for future growth in both businesses.

The strategy of injecting the Company's substantial shareholder's watch and optical businesses into the Group would further align the interests of all shareholders in the Group and minimise connected transactions in the core businesses.

Through the Disposal, the Directors believe that future Group operating results will no longer be affected by fluctuations in the property market. In addition, the Disposal will increase the Group's return on capital and further reduce bank borrowings.

When all this restructuring is complete, the Group will become highly focused on watch and optical products, with its value based on recurring earnings from these two core businesses.

12. SPECIAL GENERAL MEETING

A notice of the SGM to be held at 5th Floor, Stelux House, 698 Prince Edward Road East, San Po Kong, Kowloon, Hong Kong at 11:00 a.m. on 15 March 2006 is set out on pages 124 to 125 of this circular. At the SGM, an ordinary resolution will be proposed and, if thought fit, passed to approve the Agreement and the transactions contemplated thereunder. As the resolution to approve such connected transaction and very substantial disposal under the Listing Rules will be considered at the SGM, the Chairman of the SGM will demand that the resolution be decided by poll.

Any Shareholder, including but not limited to Yee Hing, with a material interest in the Agreement and its associates (who collectively controlled, as at the Latest Practicable Date, approximately 70% of the issued share capital of the Company) will abstain from voting in respect of any resolution in relation to the Agreement at the SGM.

A form of proxy for use at the SGM is enclosed. Whether or not you intend to attend the SGM, you are requested to complete the enclosed form of proxy and return it to the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon not later than 48 hours before the time of the SGM. The completion and return of the form of proxy will not preclude you from attending and voting in person should you so wish.

13. RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee which is set out on page 17 of this circular containing the recommendation from the Independent Board Committee to the Independent Shareholders regarding the Agreement; and (ii) the letter from Access Capital which is set out on pages 18 to 26 of this circular containing its advice to the Independent Board Committee and the Independent Shareholders regarding the Agreement.

Having taken into account the advice from Access Capital and in particular the principal factors and reasons considered set out in the letter from Access Capital, the Independent Board Committee considers that the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM in respect of the Agreement.

14. ADDITIONAL INFORMATION

Your attention is also drawn to the accountants' report, additional financial information of the Group, pro forma financial information of the Remaining Group, Jones Lang LaSalle Valuation Report and general information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board of
STELUX Holdings International Limited
Joseph C.C. Wong
Vice Chairman and Chief Executive Officer

STELUX Holdings International Limited

寶光實業(國際)有限公司*

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

(Incorporated in Bermuda with limited liability)

(Stock Code: 84)

24 February 2006

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION AND VERY SUBSTANTIAL DISPOSAL DISPOSAL OF PROPERTY AND SPECIAL DIVIDEND

We refer to the circular dated 24 February 2006 of the Company (**"Circular"**) of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the terms of the Agreement and to advise the Independent Shareholders whether, in our opinion, the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned. Access Capital has been appointed as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Agreement.

We wish to draw your attention to the letter from the Board set out on pages 5 to 16 of the Circular which contains, inter alia, information about the Agreement, and the letter of advice from Access Capital set out on pages 18 to 26 of the Circular which contains its advice in respect of the terms of the Agreement and the additional information set out in the appendix to the Circular.

Having considered the reasons for and benefits of entering into the Agreement and considering the principal factors taken into account by Access Capital in arriving at its opinion regarding the Agreement as set out in the letter from Access Capital on pages 18 to 26 of the Circular, we consider that the terms of the Agreement are fair and reasonable and the Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders to vote in favour of the ordinary resolution as set out in the notice of the SGM to be held on 15 March 2006 and thereby approve the Agreement.

Yours faithfully,
For and on behalf of
Independent Board Committee

Kwong Yiu Chung	**Wu Chun Sang**	**Lawrence Wu Chi Man**
Independent Non-executive Director	*Independent Non-executive Director*	*Independent Non-executive Director*

* *For identification purpose only*

The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from Access Capital prepared for incorporation in this circular.

ACCESS
CAPITAL

Suite 606, 6th Floor
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

24 February 2006

To: The Independent Board Committee and the Independent Shareholders of STELUX Holdings International Limited

Dear Sirs,

Connected transaction and very substantial disposal
Disposal of Property

I. INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders with regard to the terms of the Agreement. Details of the Disposal are contained in the "Letter from the Board" of the circular to the Shareholders dated 24 February 2006 (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise specifies.

Pursuant to the Agreement, the Company agreed to dispose of the entire issued share capital of Stelux (BVI) to Yee Hing at a consideration of HK$820,000,000 for cash. Following the completion of a group reorganisation of the Company, the sole asset of Stelux (BVI) will be the entire issued share capital of SHL and SHL will in turn own 100% interest in the Property as its sole asset.

Yee Hing, with an equity interest of approximately 44% in the Company, is the controlling shareholder (as defined in the Listing Rules) of the Company and therefore a connected person of the Group for the purpose of the Listing Rules. Based on the applicable size tests performed regarding the Disposal, the relevant percentage ratio under Rule 14.07 of the Listing Rules exceeds 75%. Accordingly, the Disposal constitutes a connected transaction and a very substantial disposal for the Company under the Listing Rules and will be subject to the approval of the Independent Shareholders in the SGM by poll under Chapter 14 and Chapter 14A of the Listing Rules. Any shareholders, including but not limited to Yee Hing, with a material interest in the Agreement and its associates (who collectively controlled, as at the Latest Practicable Date, approximately 70% of the issued share capital of the Company) will abstain from voting in respect of any resolution in relation to the Agreement at the SGM.

II. THE INDEPENDENT BOARD COMMITTEE

The Board currently consists of five executive Directors, namely Mr. Anant Kanjanapas (alias Wong Chong Po), Mr. Chumphol Kanjanapas (alias Joseph C.C. Wong), Mr. Chu Kai Wah, Anthony, Mr. Lee Shu Chung, Stan, and Mr. Wong Yuk Woon; a non-executive Director, Mr. Sakorn Kanjanapas; and three independent non-executive Directors, namely Mr. Kwong Yiu Chung, Mr. Wu Chun Sang and Dr. Wu Chi Man, Lawrence.

The Independent Board Committee comprising the independent non-executive Directors, Mr. Kwong Yiu Chung, Mr. Wu Chun Sang and Dr. Wu Chi Man, Lawrence, has been established to consider the terms of the Agreement.

We have been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Agreement are fair and reasonable; and is in the interests of the Company and the Shareholders as a whole; as well as to give our opinion in relation to the terms of the Agreement for the Independent Board Committee's consideration when making their recommendation to the Independent Shareholders.

III. BASES OF AND ASSUMPTIONS OF THE ADVICE

In formulating our advice, we have relied solely on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company and/or the Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular or otherwise provided or made or given by the Company and/or its senior management staff and/or the Directors and for which it is/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of the Circular. We have assumed that all the opinions and representations made or provided by the Directors and/or the senior management staff of the Company contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company and/or its senior management staff and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have reviewed all currently available information and documents which are available to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinions. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Company and/or its senior management staff and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out an independent verification of the information provided, nor have we conducted an independent investigation into the business and affairs of the Company or any of its subsidiaries.

IV. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion, we have taken into consideration the following principal factors and reasons:

1. Background to the Disposal

1.1 Principal activities of the Group

The Group is principally engaged in the business of retailing and wholesaling of watches and optical products, and property investment.

Based on the audited accounts of the Group for the year ended 31 March 2005, the Group's watch retailing and trading and its optical retailing accounted for approximately 64.7% (approximately HK$914.2 million) and 27.3% (approximately HK$386.2 million) respectively, of the Group's annual turnover of approximately HK$1,413.5 million.

Based on the Group's unaudited management account for the two years ended 31 March 2005, the Property contributed stable income to the Group, with gross rental income for the year ended 31 March 2005 amounted to approximately HK$23 million (2004: approximately HK$30 million). The Property also recorded a surplus on revaluation of approximately HK$146 million as compared to a surplus of approximately HK$27 million for the previous financial year. Through the Disposal, the Directors believe that the future operating results of the Group will no longer be directly affected by fluctuations in the property market.

Based on the audited accounts of the Group for the six months ended 30 September 2005, the Group's watch retailing and trading and its optical retailing accounted for approximately 59.1% (approximately HK$414.4 million) and 33.1% (approximately HK$232.0 million) respectively, of the Group's turnover of approximately HK$701.3 million.

As stated in the Group's annual report for the year ended 31 March 2005, the Group would like to strengthen its retail, wholesale and distribution networks in Asia. Accordingly, the Company has acquired a majority interest in each of the Thong Sia Companies, which was completed in September 2005, expanding the business into wholesaling of watches, clocks and optical products in Asia.

1.2 Business strategy

As stated in the "Letter from the Board", one of the strategies of the Group has been to focus on its traditional strengths in the retailing and wholesaling of watches and optical products businesses. Taking into account the steps taken in August 2005 to consolidate the Group's interest in the Thong Sia Companies, we concur with the view of the Directors and are of the view that the divestment of non-core assets such as the Property is a step taken by the Company in line with its existing business strategies.

1.3 Reasons for and benefits of the Disposal

As stated in the "Letter from the Board", through the Disposal, the Directors believe that the future operating results of the Group will no longer be affected by the cyclical fluctuations of the property market.

With the recent upturn in Hong Kong's property market in the past 12 months, the Directors consider that it is a good opportunity for the Group to dispose of the Property at a profit. Shareholders' attention is drawn to the various valuations conducted by Jones Lang LaSalle, independent property valuers, the Property was valued at HK$760,000,000 as at 31 March 2005 and HK$800,000,000 as at 30 September 2005. Based on an updated valuation of the Property as at 20 December 2005 made by Jones Lang LaSalle, the independent property valuers, the Property was valued at HK$820,000,000.

The Directors believe that the divestment of non-core assets by the Company would enhance the shareholders' value of the Company as the core business of the Group is retail and trading in nature where the profitability of these activities is not directly related to the valuation of the properties of the Group. The Directors are also of the view that the return to Shareholders of sale proceeds of the Disposal after repayment of the related mortgage loans would be beneficial to the Shareholders.

As the related mortgage loans on the Property will be repaid after the Disposal, the Group will, following completion of the Disposal, not be required to bear the interest costs (which has been rising in recent months) on the mortgage loans. The Group's gearing position would also be improved as a result of the Disposal.

The Directors are of the view that the Disposal is in the interests of the Company and the Shareholders as a whole, and the terms of the Agreement are fair and reasonable and on normal commercial terms.

Taking into account the Company's business strategy, the recovery of property prices, and the reasons for and benefits of the Disposal as described above, we concur with the Directors' view and are of the view that the Disposal is a step consistent with the Company's stated business strategy and is in the interests of the Company and the Shareholders as a whole.

2. Terms of the Agreement

2.1 Assets to be disposed

Pursuant to the Agreement, the Company has agreed to dispose of the entire issued share capital of Stelux (BVI) to Yee Hing at a consideration of HK$820,000,000 for cash. As mentioned below, the Company will repay the mortgage loans on the Property out of the sales proceeds.

Following the completion of the Reorganisation, the sole asset of Stelux (BVI) will be the entire issued share capital of SHL and SHL will in turn own 100% interest in the Property as its sole asset.

The Property comprises the building known as Stelux House located at 698 Prince Edward Road East, San Po Kong, Kowloon, Hong Kong and a parcel of ground situate, lying and being at Hong Kong and registered in the Land Registry as Inland LOT NO. 4790 with a registered site area of approximately 2,098 square meters (22,580 square feet). The Property will be sold subject to existing tenancies. Stelux House comprises a 26-storey office building with retail shops on the ground floor and mezzanine floor and loading and unloading facilities and 114 car parking spaces on three basement levels. The total lettable gross floor area of Stelux House is approximately 30,547 square meters (328,809 square feet).

Before the completion of the Reorganisation, Stelux (BVI) is holding other assets and liabilities in addition to the Property. As such, the current financial information of Stelux (BVI) is not relevant in the context of the Disposal. The gross rental income, and profit before and after taxation in respect of the Property for the two years ended 31 March 2005 and the six months ended 30 September 2005 were extracted from the unaudited management accounts of the Group and set out as follows:

	For the year ended 31 March		**For the six months ended 30 September**
	2005	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Gross rental income	22,566	30,308	13,228
Profit before surplus on revaluation of the Property and taxation	3,446	6,848	38,644
Surplus on revaluation of the Property	145,600	27,300	36,400
Profit after surplus on revaluation of the Property and before taxation	149,046	34,148	75,044
Profit after taxation and after surplus on revaluation of the Property	123,971	27,225	67,630

2.2 Consideration

The Consideration was reached after arm's length negotiations between the parties with reference to the valuation of the Property of HK$800,000,000 made by independent property valuers as at 30 September 2005. Based on an updated valuation of the Property as at 20 December 2005 made by Jones Lang LaSalle, the independent property valuers, the Property was valued at HK$820,000,000.

Under the Agreement, an initial deposit of HK$10,000,000 was paid in cash by Yee Hing and the balance of the Consideration of HK$810,000,000 will be payable in cash upon Completion.

Given that the Consideration is equivalent to the updated valuation of the Property, and the reasons for and benefits of the Disposal set out in this letter, we are of the view that the consideration to be received by the Group under the Disposal is fair and reasonable.

2.3 Use of proceeds

As stated in the "Letter from the Board", approximately HK$320,000,000 of the proceeds of the Disposal will be used to repay the outstanding mortgage loans in relation to the Property.

Subject to completion of the Agreement, the Board has resolved to recommend distribution of a Special Dividend of approximately HK$475.7 million (HK$0.50 per Share) to Shareholders whose names appear on the register of the Company on 28 March 2006.

After repayment of the outstanding mortgage loans in relation to the Property, the distribution of the Special Dividend and the deduction of the rental deposits under the existing tenancies of the Property as of the date of Completion, the balance of the proceeds of the Disposal will be approximately HK$16.4 million including the payment of related expenses and will be used for general working capital purposes.

Taking into account (i) the Company's business strategy to focus on the watch and optical businesses as described in paragraph 1.2 above; and (ii) the Directors' intention to distribute the bulk of the sale proceeds (after repayment of the mortgage loan) to the Shareholders as there is no specific acquisition target or investment proposal in the near and medium term which requires the Group to maintain a substantial amount of cash balance, we are of the view that the proposed use of proceeds from the Disposal is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

3. Expected financial impact on the Group as a result of the Disposal

Following completion of the Reorganisation and the Disposal, Stelux (BVI) will no longer be a wholly-owned subsidiary of the Company and the financial results of Stelux (BVI) and its subsidiaries will not be consolidated into the Group's financial results.

3.1 Gain on disposal

According to the unaudited management accounts of the Group, the book value of the Property was approximately HK$743,385,000 as at 31 March 2005. The unaudited book value of the Property was approximately HK$779,169,000 as at 30 September 2005 after taking into account the valuation conducted by Jones Lang LaSalle, independent property valuers, on the Property. Accordingly, the Disposal at its Consideration of HK$820,000,000 will give rise to a gain of approximately HK$40,831,000 (subject to audit for the year ending 31 March 2006) for the Group based on its book value as at 30 September 2005 and before deduction of the direct expenses attributable to the Disposal of approximately HK$6,000,000.

3.2 Net asset value

As at 30 September 2005, the audited consolidated net asset value of the Group was approximately HK$1,010 million, representing an audited consolidated net asset value per Share of approximately HK$1.06 (on the basis of 951,340,023 Shares in issue as at 30 September 2005).

On the basis of the abovementioned gain on disposal of approximately HK$40,831,000 and had the Disposal been executed and completed on 30 September 2005, the audited consolidated net asset value of the Group as at 30 September 2005 would have been increased by the same amount, without taking into account the payment of the proposed Special Dividend as mentioned above and the expenses in relation to the Disposal. Correspondingly, as stated in the "Letter from the Board", the deferred tax liabilities of the Group in relation to the holding of properties would have been reduced by approximately HK$54,590,000 as at 30 September 2005 following the Disposal.

As approximately HK$320,000,000 of the proceeds of the Disposal will be used to repay the outstanding mortgage loans in relation to the Property, the Group's total liabilities will accordingly be reduced.

Please also refer to the statement of unaudited pro forma adjusted consolidated balance sheet of the Group after the Disposal as set out in Appendix III to the Circular.

3.3 Earnings

As mentioned in paragraphs 1.1 and 2.1 above, the Property has contributed stable income to the Group, with rental income for the year ended 31 March 2005 amounting to approximately HK$23 million. However, the operating results (before the surplus on revaluation of the Property and taxation) generated from the Property were not significant to the Group (approximately HK$3.4 million as set out in the table above).

Although the Group will no longer receive rental income from the Property following completion of the Disposal, the Group will be able to save on operating expenses in relation to the Property (approximately HK$13,941,000 for the year ended 31 March 2005) and interest expenses (approximately HK$13,737,000 for the year ended 31 March 2005).

As stated in the "Letter from the Board", the Company will rent the Office Premises from SHL after completion of the Agreement as long as the terms are in line with market rate. Accordingly, based on the Tenancy Agreements, the Group would incur rental expenses of HK$373,000 (exclusive of management fee, rates and government rent) per month.

3.4 Cash position

As at 30 September 2005, the bank balances and cash of the Group amount to approximately HK$80.5 million.

Although part of the proceeds will be used to repay the mortgage loans on the Property and to distribute to the Shareholders as a Special Dividend, the bank balances and cash of the Group will be improved by approximately HK$10.4 million (i.e. the remaining balance of the proceeds from the Disposal (after deducting related expenses of approximately HK$6.0 million and transfer of rental deposit of approximately HK$7.9 million)).

Also mentioned above, the rental income for the year ended 31 March 2005 amounted to approximately HK$23 million. Accordingly, the cash flow position of the Group will continue to be satisfactory and will not be adversely affected by the loss of rental income from the Property.

As at 30 September 2005, the gearing ratio (i.e. total bank borrowings/ shareholders' equity) of the Group was approximately 0.60. For illustration purposes only, following completion of the Disposal and due to the repayment of the mortgage loans on the Property, the Group's gearing position would be improved to approximately 0.45.

3.5 Business operations

The Directors believe that following completion of the Disposal, the Disposal will have no material adverse effect on the overall business operations of the Group. Accordingly and as required under Rule 13.24 of the Listing Rules, the Directors confirm that following completion of the Disposal, the Company will continue to have sufficient operations.

As stated in the "Letter from the Board", the Group has been using the Office Premises at the Property since 1998. The Directors consider it to be in the interests of the Company and the Shareholders as a whole for the Company to rent the Office Premises from SHL (the "Rental Arrangement") after completion of the Agreement as long as the terms are in line with market rate.

Given the Rental Arrangement is intended to be in line with prevailing market rent (based on an independent valuation by Jones Lang LaSalle made on 12 December 2005), the Rental Arrangement would avoid unnecessary relocation costs and/or interruption to the business operations to the Group. Taking into account the reasons and benefits of the Disposal as mentioned above and our discussion with the management of the Company, we concur with the view of the Directors and believe that Disposal will have no material adverse effect to the overall business operations of the Group.

Based on the analysis mentioned above, in particular, following completion of the Disposal (i) there will be a gain on disposal; (ii) the expected financial impact of the Disposal as mentioned above; and (iii) there will be no material adverse effect to the overall business operation of the Group, we are of the view the Disposal is based on normal and commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

V. RECOMMENDATION

In considering the terms of the Disposal, we have taken into account the following factors:

– the operation and business strategy of the Group as described in paragraphs 1.1 and 1.2 above;

– the reasons for and benefits of the Disposal as described in paragraphs 1.3 above;

– the terms of the Agreement with regard to the basis of the Consideration, which were arrived at following arm's length negotiations between relevant parties and by reference to an independent valuation of the Property as described in paragraph 2.2 above;

– the intended use of proceeds from the Disposal, in particular, the repayment of the mortgage loans of the Group and the distribution of a Special Dividend to the Shareholders as described in paragraph 2.3 above; and

– the expected financial effects to the Group as described in paragraph 3 above.

After having considered the above principal factors and based on the information provided and the representations made to us, we consider the terms of the Agreement to be fair and reasonable so far as the Independent Shareholders are concerned; and that the Disposal is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the relevant resolution which will be proposed at the SGM to approve the transactions contemplated under the Agreement.

Yours faithfully,
For and on behalf of
ACCESS CAPITAL LIMITED
Jeanny Leung
Managing Director

A. ACCOUNTANTS' REPORT ON THE GROUP FOR THE THREE YEARS ENDED 31 MARCH 2005 AND SIX MONTHS ENDED 30 SEPTEMBER 2005

The following is the text of the accountants' report from PricewaterhouseCoopers, the auditors and reporting accountants of the Company for each of the three years ended 31 March 2003, 2004 and 2005 and six months ended 30 September 2004 and 2005, prepared for the purpose of incorporation in this circular.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888
www.pwchk.com

24 February 2006

The Directors
Stelux Holdings International Limited

Dear Sirs,

We set out below our report on the financial information relating to Stelux Holdings International Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the three years ended 31 March 2003, 2004 and 2005 and six months ended 30 September 2004 and 2005 (the "Relevant Periods") for inclusion in the circular of the Company dated 24 February 2006 in connection with the proposed disposal of Stelux House through the disposal of the entire issued share capital of Stelux Holdings International (BVI) Limited and special dividend (the "Circular").

The Company was incorporated in Bermuda on 26 October 1994 with limited liability under the Company Act 1981 of Bermuda. As at the date of this report, the Company had direct and indirect interest in the principal subsidiaries as set out in note 41 of section II below.

All companies comprising the Group have adopted 31 March as their financial year end date except for three subsidiaries which have adopted 31 December as their financial year end date. We have audited the consolidated financial statements of the Group for each of the three years ended 31 March 2003, 2004 and 2005 and the six months ended 30 September 2005 which have been prepared in accordance with accounting principles generally accepted in Hong Kong. No audited consolidated financial statements of the Group have been prepared for the six months ended 30 September 2004.

The financial information as set out in section I to III below (the "Financial Information") has been prepared based on audited consolidated financial statements of the Group for each of the three years ended 31 March 2003, 2004 and 2005 and the six months ended 30 September 2005 and the unaudited consolidated financial statements of the Group for the six months ended 30 September 2004 after making such adjustments as are appropriate. The directors of the Company are responsible for preparing these financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

For the purpose of this report, we have examined the audited consolidated financial statements of the Group for the three years ended 31 March 2003, 2004 and 2005 and the six months ended 30 September 2005 and have carried out such additional procedures as are necessary in accordance with the Auditing Guidance 3.340 "Prospectuses and the Reporting Accountants" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). In addition, we have reviewed the consolidated financial statements of the Group for the six months ended 30 September 2004 in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of the Group management and applying analytical procedures to the consolidated financial statements and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the consolidated financial statements for the six months ended 30 September 2004.

The directors of the Company are responsible for the Financial Information. It is our responsibility to form an independent opinion, based on our examination and review, on the Financial Information and to report our opinion.

In our opinion, the Financial Information, for the purpose of this report and prepared on the basis set out in Section II below, gives a true and fair view of the state of affairs of the Group and the Company as at 31 March 2003, 2004, 2005 and 30 September 2005 and of the consolidated results and cash flows of the Group for the periods then ended.

Moreover, on the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the financial information for the six months ended 30 September 2004.

(I) FINANCIAL INFORMATION

CONSOLIDATED PROFIT & LOSS ACCOUNTS

		Year ended 31 March			Six months ended 30 September	
		2003	**2004**	**2005**	**2004**	**2005**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
Revenues	*5*	1,189,188	1,209,907	1,413,504	669,548	701,325
Cost of sales	*9*	(455,976)	(441,344)	(500,607)	(231,208)	(249,278)
Gross profit		733,212	768,563	912,897	438,340	452,047
Fair value (losses)/gains of investment properties	*17*	(33,230)	25,500	154,330	–	36,660
Compensation received from arbitration	*7*	–	30,080	–	–	38,489
Other gains	*6*	29,320	26,459	23,770	10,371	18,008
Selling expenses	*9*	(505,471)	(516,906)	(610,879)	(291,672)	(335,006)
General and administrative expenses	*9*	(156,592)	(156,559)	(173,966)	(79,896)	(90,484)
Other operating expenses	*9*	(76,181)	(57,799)	(80,015)	(24,895)	(25,730)
Operating (loss)/profit		(8,942)	119,338	226,137	52,248	93,984
Finance costs	*11*	(29,040)	(27,120)	(19,035)	(10,756)	(12,972)
(Loss)/profit before taxation		(37,982)	92,218	207,102	41,492	81,012
Taxation	*12*	8,333	(9,505)	(36,082)	(2,026)	(12,138)
(Loss)/profit after taxation		(29,649)	82,713	171,020	39,466	68,874
Attributable to:						
Equity holders of the Company	*13*	(29,649)	82,713	171,020	39,466	68,874
Minority interests		–	–	–	–	–
		(29,649)	82,713	171,020	39,466	68,874
Dividends	*14*	–	18,867	33,297	9,513	9,513
		HK cents	*HK cents*	*HK cents*	*HK cents*	*HK cents*
(Loss)/earnings per share	*15*					
– Basic		(3.17)	8.80	18.05	4.18	7.24
– Diluted		(3.17)	8.80	18.01	4.17	7.24

CONSOLIDATED BALANCE SHEETS

		As at 31 March			As at 30 September
		2003	2004	2005	2005
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
Non-current assets					
Property, plant and equipment	*16*	148,904	155,211	154,670	158,471
Investment properties	*17*	532,520	558,020	712,350	758,970
Prepayment of lease premium	*18*	163,964	166,428	162,830	165,431
Intangible assets	*20*	21,284	19,160	17,052	21,264
Deferred tax assets	*32*	25,019	26,910	32,875	33,273
Investment securities	*21*	4,299	4,299	4,299	–
Available-for-sale financial assets	*22*	–	–	–	11,500
		895,990	930,028	1,084,076	1,148,909
Current assets					
Stocks	*23*	356,208	349,385	388,849	517,080
Debtors and prepayments	*24*	282,656	344,794	292,830	421,036
Marketable securities	*25*	4,364	74	83	–
Financial assets at fair value through profit or loss	*26*	–	–	–	48,078
Bank balances and cash	*27*	36,775	53,037	64,779	80,480
		680,003	747,290	746,541	1,066,674
Total assets		1,575,993	1,677,318	1,830,617	2,215,583
EQUITY					
Capital and reserves attributable to the Company's equity holders					
Share capital	*28*	94,077	95,127	97,111	97,111
Reserves	*29*	628,208	708,475	842,552	903,376
Declared interim/proposed final dividend	*29*	–	18,867	23,784	9,513
Shareholders' funds		722,285	822,469	963,447	1,010,000
Minority interests		1,473	1,606	2,494	6,288
Total equity		723,758	824,075	965,941	1,016,288

CONSOLIDATED BALANCE SHEETS (CONTINUED)

	Note	As at 31 March 2003 HK$'000	As at 31 March 2004 HK$'000	As at 31 March 2005 HK$'000	As at 30 September 2005 HK$'000
LIABILITIES					
Non-current liabilities					
Deferred tax liabilities	*32*	12,940	18,638	47,985	57,027
Other non-current liabilities	*31*	308,407	250,269	279,719	400,675
		321,347	268,907	327,704	457,702
Current liabilities					
Creditors and accruals	*30*	246,146	277,181	284,436	399,117
Loans from the ultimate holding company	*33*	–	–	–	38,500
Loans from shareholders	*34*	3,892	3,892	–	36,500
Loans from a director	*35*	–	–	8,648	8,288
Taxation payable		11,894	11,616	15,770	15,980
Current portion of other non-current liabilities	*31*	26,049	57,278	23,465	15,292
Bank overdrafts and short term loans	*31*				
Secured		202,110	185,089	141,058	129,389
Unsecured		40,797	49,280	63,595	98,527
		530,888	584,336	536,972	741,593
Total liabilities		852,235	853,243	864,676	1,199,295
Total equity and liabilities		1,575,993	1,677,318	1,830,617	2,215,583
Net current assets		149,115	162,954	209,569	325,081
Total assets less current liabilities		1,045,105	1,092,982	1,293,645	1,473,990

BALANCE SHEETS

	Note	As at 31 March 2003 HK$'000	As at 31 March 2004 HK$'000	As at 31 March 2005 HK$'000	As at 30 September 2005 HK$'000
ASSETS					
Non-current assets					
Subsidiaries	*19*	611,305	611,305	611,305	611,305
Current assets					
Other debtor and prepayments		9	9	9	9
Bank balances and cash	*27*	4	2	10	6
		13	11	19	15
Total assets		611,318	611,316	611,324	611,320
EQUITY					
Capital and reserves attributable to the Company's equity holders					
Share capital	*28*	94,077	95,127	97,111	97,111
Reserves	*29*	385,075	363,842	326,985	316,008
Declared interim/proposed final dividend	*29*	–	18,867	23,784	9,513
Shareholders' funds		479,152	477,836	447,880	422,632
Total equity		479,152	477,836	447,880	422,632
LIABILITIES					
Current liabilities					
Amounts due to subsidiaries	*19*	126,694	127,258	161,761	186,987
Other creditors and accruals		1,580	2,330	1,683	1,701
Loans from shareholders	*34*	3,892	3,892	–	–
Total liabilities		132,166	133,480	163,444	188,688
Total equity and liabilities		611,318	611,316	611,324	611,320
Net current liabilities		(132,153)	(133,469)	(163,425)	(188,673)
Total assets less current liabilities		479,152	477,836	447,880	422,632

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company			
	Share capital	Reserves	Minority interests	Total
	(Note 28)	*(Note 29)*		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2002	94,077	652,264	1,461	747,802
Exchange difference	–	5,593	12	5,605
Loss for the year	–	(29,649)	–	(29,649)
At 31 March 2003 and 1 April 2003	94,077	628,208	1,473	723,758
Exchange difference	–	16,421	133	16,554
Profit for the year	–	82,713	–	82,713
Issue of shares on exercise of share options	1,050	–	–	1,050
At 31 March 2004 and 1 April 2004	95,127	727,342	1,606	824,075
Exchange difference	–	(3,646)	888	(2,758)
Profit for the year	–	171,020	–	171,020
Dividend paid	–	(28,380)	–	(28,380)
Issue of shares on exercise of share options	1,984	–	–	1,984
At 31 March 2005 and 1 April 2005	97,111	866,336	2,494	965,941
Opening adjustment on adoption of HKAS 39 (Section II(2)(a)(v))	–	7,201	–	7,201
At 1 April 2005, as restated	97,111	873,537	2,494	973,142
Minority interest – acquisition of subsidiaries	–	–	3,873	3,873
Exchange difference	–	(5,738)	(79)	(5,817)
Profit for the period	–	68,874	–	68,874
Dividend paid	–	(23,784)	–	(23,784)
At 30 September 2005	97,111	912,889	6,288	1,016,288
For the six months ended 30 September 2004 (Unaudited)				
At 1 April 2004	95,127	727,342	1,606	824,075
Exchange difference	–	(7,381)	(81)	(7,462)
Profit for the period	–	39,466	–	39,466
Dividend paid	–	(18,867)	–	(18,867)
Issue of shares upon exercise of share options	1,488	–	–	1,488
At 30 September 2004	96,615	740,560	1,525	838,700

CONSOLIDATED CASH FLOW STATEMENTS

		Year ended 31 March			Six months ended 30 September	
		2003	2004	2005	2004	2005
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
Cash flows from operating activities						
Cash generated from/(used in) operations	*36(a)*	39,329	121,801	143,425	87,311	(27,237)
Interest paid		(30,140)	(27,525)	(18,620)	(11,075)	(11,270)
Hong Kong profits tax paid		(2,016)	(75)	(312)	(20)	(107)
Hong Kong profits tax refunded		25	28	19	18	–
Overseas profits tax paid		(4,323)	(5,590)	(8,040)	(625)	(5,200)
Overseas tax refunded		211	57	–	–	–
Net cash from/(used in) operating activities		3,086	88,696	116,472	75,609	(43,814)
Cash flows from investing activities						
Acquisition of subsidiaries	*40*	–	–	–	–	(29,103)
Purchase of property, plant and equipment		(33,793)	(43,088)	(46,402)	(19,217)	(27,022)
Prepayment of lease premium		(11,392)	(2,606)	(5,649)	(4,815)	(10,415)
Proceeds from sale of property, plant and equipment		3,315	510	1,124	499	–
Proceeds from sale of marketable securities		–	4,290	–	569	–
Interest received		7,668	2,127	2,657	927	1,004
Dividends received		1,946	1,084	1,195	4	4
Net cash used in investing activities		(32,256)	(37,683)	(47,075)	(22,033)	(65,532)

CONSOLIDATED CASH FLOW STATEMENTS (CONTINUED)

	Note	Year ended 31 March 2003 HK$'000	Year ended 31 March 2004 HK$'000	Year ended 31 March 2005 HK$'000	Six months ended 30 September 2004 HK$'000 (Unaudited)	Six months ended 30 September 2005 HK$'000
Cash flows from financing activities	*36(b)*					
Drawdown of bank loans		192,807	183,093	271,963	174,171	301,770
Repayment of bank loans		(172,778)	(206,871)	(276,379)	(187,534)	(214,169)
Issue of shares		–	1,050	1,984	1,488	–
Capital element of finance lease payments		(789)	(593)	(404)	(230)	(190)
Net increase/(decrease) in loans from related companies		1,250	(9,670)	(13,000)	(13,000)	(11,580)
Repayment of loan from a shareholder		–	–	(3,892)	–	–
Repayment of loan from a director		(5,058)	–	(13,444)	(13,444)	(360)
Dividends paid		–	–	(28,380)	(18,867)	(23,784)
Increase in minority interests		–	–	883	–	–
New loans from a shareholder		–	–	8,648	–	36,500
New loans from the ultimate holding company		–	–	–	–	38,500
Net cash from/(used in) financing activities		15,432	(32,991)	(52,021)	(57,416)	126,687
Net (decrease)/increase in cash and cash equivalents		(13,738)	18,022	17,376	(3,840)	17,341
Cash and cash equivalents at beginning of year/period		28,549	14,811	32,833	32,833	50,209
Cash and cash equivalents at end of year/period		14,811	32,833	50,209	28,993	67,550
Analysis of the balances of cash and cash equivalents						
Cash and bank balances		34,761	51,013	64,779	48,654	80,480
Bank overdrafts		(19,950)	(18,180)	(14,570)	(19,661)	(12,930)
Cash and cash equivalents at end of year/period		14,811	32,833	50,209	28,993	67,550

(II) NOTES TO THE FINANCIAL INFORMATION

1. General Information

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are shown in note 41.

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.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to all the years/periods presented, unless otherwise stated.

(a) Basis of preparation

The Financial Information 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 Financial Information 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 Financial Information, are disclosed in note 4.

In the year beginning 1 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 1 April 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The comparatives of prior years 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
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations
HKFRS 4	Insurance Contracts

The following is a summary of material changes in principal accounting policies or presentation of the Financial Information 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 periods, 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.

2. Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(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 1 April 2005 and the amounts carried forward under the previous accounting policy of the investment securities as at 1 April 2005 was credited to the opening investment revaluation reserve as at 1 April 2005. In prior periods, 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 periods, 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 1 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 1 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 31 March 2005, the provision of share options to employees did not result in an expense in the profit and loss account. Effective on 1 April 2005, the Group expenses the cost of share options in the profit and loss account.

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 7 November 2002 and not vested at 1 April 2005.

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

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

(a) Basis of preparation (Continued)

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

Consolidated profit and loss account

For the six months ended 30 September 2005

	Increase/(decrease)			
	HKAS 17	**HKAS 32 and 39**	**HKAS 38**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other operating expenses	–	–	(1,178)	(1,178)
Profit attributable to equity holders of the Company	–	–	1,178	1,178
	HK cent	*HK cent*	*HK cent*	*HK cent*
Earnings per share	–	–	0.12	0.12

There is no material impact of adopting these new HKFRSs on the consolidated profit and loss account for each of the three years ended 31 March 2003, 2004, 2005 and the six months ended 30 September 2004.

Consolidated balance sheet

As at 30 September 2005

	Increase/(decrease)			
	HKAS 17	**HKAS 32 and 39**	**HKAS 38**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	(165,431)	–	–	(165,431)
Prepayment for lease premium	165,431	–	–	165,431
Intangible assets	–	–	1,178	1,178
Investment securities	–	(4,299)	–	(4,299)
Available-for-sale financial assets	–	11,500	–	11,500
Debtors and prepayments	–	6,186	–	6,186
Total assets	–	13,387	1,178	14,565
Bank overdrafts and short term loans, secured	–	6,186	–	6,186
Total liabilities	–	6,186	–	6,186
Net assets	–	7,201	1,178	8,379
Retained profits	–	–	1,178	1,178
Other reserves	–	7,201	–	7,201
Shareholders' funds	–	7,201	1,178	8,379

2. Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

Consolidated balance sheet (Continued)

As at 31 March

	Increase/(decrease)		
		HKAS 17	
	2003	2004	2005
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	(163,964)	(166,428)	(162,830)
Prepayment for lease premium	163,964	166,428	162,830
Net assets	–	–	–

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 1 April 2006 or later periods but which the Group has not early adopted, are as follows:

– HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value and subsequently measured at the higher of: (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. The Company regards its financial guarantee contracts provided to its subsidiaries as insurance contract.

– HKFRS 7, Financial Instruments: Disclosures, and a complementary amendment to HKAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1 January, 2007). HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces HKAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in HKAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under HKFRS. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 April 2007.

– HKFRS Interpretation 4 ("HKFRS-Int 4"), Determining whether an Arrangement contains a Lease (effective from 1 January 2006). HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of HKFRS-Int 4 on the Group's operations.

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(f)).

In the Company's balance sheet, 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) Foreign currency translation

(i) Functional and presentation currency

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

(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 items, 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 items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

2. Summary of significant accounting policies (Continued)

(c) Foreign currency translation (Continued)

(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 separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, 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 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.

(d) 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 period 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.

2. Summary of significant accounting policies (Continued)

(e) 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.

(f) 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. 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 and are tested for impairment on an annual basis (note 2(g)).

(g) Impairment of 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).

(h) Investments

Prior to 1 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 1 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.

2. Summary of significant accounting policies (Continued)

(h) Investments (Continued)

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.

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. 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 period 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.

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 in determining whether 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.

(i) 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.

(j) 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. 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.

2. Summary of significant accounting policies (Continued)

(k) 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.

(l) 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.

(m) 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 period 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.

(n) 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.

(o) 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)

(o) 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.

(p) 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.

(q) 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.

(r) 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 expensed 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.

2. Summary of significant accounting policies (Continued)

(s) 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 Financial Information. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

(t) Dividend distribution

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

(u) Insurance contract

Insurance contract is a contract under which one party (the insurer) accepts 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 shows 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 31(a) below.

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

3. Financial risk management (Continued)

(a) Financial risk factors (Continued)

(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.

4. Critical accounting estimates and judgements (Continued)

(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 assets 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

Revenues represents the following:

		Year ended 31 March		Six months ended 30 September	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Turnover					
Sales of goods	1,154,340	1,177,453	1,389,138	656,870	687,417
Gross rental income	34,848	32,454	24,366	12,678	13,908
	1,189,188	1,209,907	1,413,504	669,548	701,325

For the year ended 31 March 2003, 2004, 2005 and the six months ended 30 September 2004, dividend income from unlisted investment and interest income have been reclassified from turnover to other gains *(note 6)* to conform with the presentation of the six months ended 30 September 2005.

6. Other gains

	Year ended 31 March			Six months ended 30 September	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Building management fee income	11,813	11,194	9,440	4,603	5,332
Dividend income from unlisted investments	1,946	1,084	1,195	4	4
Interest income	6,988	7,033	6,872	3,066	2,668
Fair value gain on financial assets at fair value through profit or loss	–	–	–	–	8,000
Sundries	8,573	7,148	6,263	2,698	2,004
	29,320	26,459	23,770	10,371	18,008

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 31 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 six months ended 30 September 2005.

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.

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.

8. Segment information (Continued)

Primary reporting format – business segments

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.

	As at and for the year ended 31 March 2003				
	Retail and trading				
	Watch	Optical	Hipo. fant	Property	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenues					
Gross segment	770,998	304,334	79,009	45,870	1,200,211
Inter-segment	–	–	–	(11,023)	(11,023)
	770,998	304,334	79,009	34,847	1,189,188
Segment results	37,468	6,916	(12,845)	(16,247)	15,292
Unallocated income					2,042
Net corporate expenses					(26,276)
Operating loss					(8,942)
Finance costs					(29,040)
Loss before taxation					(37,982)
Taxation					8,333
Loss after taxation					(29,649)
Segment assets	511,289	114,461	43,599	832,797	1,502,146
Unallocated assets					73,847
Total assets					1,575,993
Segment liabilities	152,695	66,472	9,496	12,506	241,169
Unallocated liabilities					611,066
Total liabilities					852,235
Capital expenditure	23,930	16,902	4,177	–	
Depreciation	25,451	11,112	2,863	44	
Amortisation of prepayment of lease premium	3,234	1,245	–	3,081	
Amortisation of trademarks	2,422	–	–	–	
Impairment of buildings	2,000	–	–	–	
Impairment of prepayment of lease premium	–	–	–	2,800	
Loss on disposals of property, plant and equipment	220	265	68	–	
Write-down of stocks to net realisable value	11,196	1,077	988	–	
Impairment of debtors and bad debt written off	4,107	91	59	4,753	
Fair value losses of investment properties	–	–	–	33,230	

8. Segment information (Continued)

Primary reporting format – business segments (Continued)

	As at and for the year ended 31 March 2004				
	Retail and trading				
	Watch	Optical	Hipo. fant	Property	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenues					
Gross segment	783,577	313,308	80,568	43,191	1,220,644
Inter-segment	–	–	–	(10,737)	(10,737)
	783,577	313,308	80,568	32,454	1,209,907
Segment results	59,315	14,395	(13,677)	90,634	150,667
Unallocated income					1,113
Net corporate expenses					(32,442)
Operating profit					119,338
Finance costs					(27,120)
Profit before taxation					92,218
Taxation					(9,505)
Profit after taxation					82,713
Segment assets	518,450	119,172	42,098	908,051	1,587,771
Unallocated assets					89,547
Total assets					1,677,318
Segment liabilities	165,075	62,286	7,327	30,093	264,781
Unallocated liabilities					588,462
Total liabilities					853,243
Capital expenditure	29,464	14,140	1,927	11	
Depreciation	24,590	10,671	2,965	–	
Amortisation of prepayment of lease premium	3,148	1,726	–	3,081	
Amortisation of trademarks	2,405	–	–	–	
Reversal of impairment of prepayment of lease premium	–	–	–	(2,800)	
Fair value gains of investment properties	–	–	–	(25,500)	
Compensation received from arbitration	–	–	–	(30,080)	
Loss on disposal of property, plant and equipment	51	170	–	–	
Write-down of stocks to net realisable value/ (reversal of stock write-downs)	19,298	(291)	1,015	–	
Impairment of debtors and bad debts written off	2,605	–	–	–	

8. Segment information (Continued)

Primary reporting format – business segments (Continued)

	As at and for the year ended 31 March 2005				
	Retail and trading				
	Watch	Optical	Hipo. fant	Property	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenues					
Gross segment	914,248	386,172	88,719	35,021	1,424,160
Inter-segment	–	–	–	(10,656)	(10,656)
	914,248	386,172	88,719	24,365	1,413,504
Segment results	91,455	26,885	(24,493)	173,014	266,861
Unallocated income					1,257
Net corporate expenses					(41,981)
Operating profit					226,137
Finance costs					(19,035)
Profit before taxation					207,102
Taxation					(36,082)
Profit after taxation					171,020
Segment assets	579,212	141,961	21,023	982,753	1,724,949
Unallocated assets					105,668
Total assets					1,830,617
Segment liabilities	162,396	67,475	5,946	26,954	262,771
Unallocated liabilities					601,905
Total liabilities					864,676
Capital expenditure	33,541	18,240	511	7	
Depreciation	28,247	12,373	2,350	155	
Amortisation of prepayment of lease premium	3,271	1,860	–	3,080	
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)

Primary reporting format – business segments (Continued)

	(Unaudited) As at and for the six months ended 30 September 2004 Retail and trading				
	Watch	**Optical**	**Hipo. fant**	**Property**	**Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenues					
Gross segment	436,202	184,295	36,373	18,015	674,885
Inter-segment	–	–	–	(5,337)	(5,337)
	436,202	184,295	36,373	12,678	669,548
Segment results	52,014	12,823	(5,252)	8,878	68,463
Unallocated income					21
Net corporate expenses					(16,236)
Operating profit					52,248
Finance costs					(10,756)
Profit before taxation					41,492
Taxation					(2,026)
Profit after taxation					39,466
Capital expenditure	15,780	8,344	280	–	
Depreciation	12,270	5,949	1,348	130	
Amortisation of prepayment of lease premium	1,586	883	–	1,541	
Amortisation of trademarks	1,136	–	–	–	
Loss/(gain) on disposal of property, plant and equipment	62	(18)	22	–	
Write-down of stocks to net realisable value	1,026	66	86	–	
Impairment of debtors and bad debts written off	406	–	–	–	

8. Segment information (Continued)

Primary reporting format – business segments (Continued)

	As at and for the six months ended 30 September 2005				
	Retail and trading				
	Watch	**Optical**	**Hipo. fant**	**Property**	**Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenues					
Gross segment	414,387	232,051	40,979	19,348	706,765
Inter-segment	–	–	–	(5,440)	(5,440)
	414,387	232,051	40,979	13,908	701,325
Segment results	9,038	17,270	(7,811)	87,333	105,830
Unallocated income					8,069
Net corporate expenses					(19,915)
Operating profit					93,984
Finance costs					(12,972)
Profit before taxation					81,012
Taxation					(12,138)
Profit after taxation					68,874
Segment assets	777,263	169,879	31,948	1,057,639	2,036,729
Unallocated assets					178,854
Total assets					2,215,583
Segment liabilities	265,678	74,907	15,792	16,878	373,255
Unallocated liabilities					826,040
Total liabilities					1,199,295
Capital expenditure	26,837	23,130	593	–	
Depreciation	13,559	7,272	849	17	
Amortisation of prepayment of lease premium	1,550	1,139	–	1,541	
Reversal of impairment of property, plant and equipment	–	–	(257)	–	
Fair value gains of investment properties	–	–	–	(36,660)	
Loss on disposal of property, plant and equipment	167	58	164	–	
(Reversal of stock write-down)/ write-down of stocks to net realisable value	(2,478)	749	(3,993)	–	
Impairment of debtors and bad debts written off	817	–	–	273	

8. Segment information (Continued)

Secondary reporting format – geographical segments

	As at and for the year ended 31 March 2003			
	Revenues	**Segment results**	**Total assets**	**Capital expenditure**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	694,155	(42,388)	1,235,878	14,670
South East and Far East Asia	278,459	19,245	240,856	29,447
Europe	197,654	37,364	73,224	1,199
North America	9,124	490	8,280	26
Mainland China	9,796	581	17,755	602
	1,189,188	15,292	1,575,993	45,944

	As at and for the year ended 31 March 2004			
	Revenues	**Segment results**	**Total assets**	**Capital expenditure**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	657,987	86,906	1,293,958	16,414
South East and Far East Asia	330,512	42,187	283,503	22,299
Europe	185,482	24,804	75,044	3,832
North America	13,573	(2,803)	259	334
Mainland China	22,353	(427)	24,554	2,896
	1,209,907	150,667	1,677,318	45,775

	As at and for the year ended 31 March 2005			
	Revenues	**Segment results**	**Total assets**	**Capital expenditure**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	766,901	192,043	1,342,689	10,506
South East and Far East Asia	415,918	54,139	347,189	34,935
Europe	168,005	14,981	72,667	2,888
North America	21,738	9,689	260	–
Mainland China	40,942	(3,991)	67,812	4,275
	1,413,504	266,861	1,830,617	52,604

8. Segment information (Continued)

Secondary reporting format – geographical segments (Continued)

	(Unaudited) For the six months ended 30 September 2004		
	Revenues	Segment results	Capital expenditure
	HK$'000	*HK$'000*	*HK$'000*
Hong Kong	359,667	28,103	4,646
South East and Far East Asia	186,745	20,281	17,748
Europe	91,463	14,528	246
North America	13,967	6,201	–
Mainland China	17,706	(650)	1,937
	669,548	68,463	24,577

	As at and for the six months ended 30 September 2005			
	Revenues	Segment results	Total assets	Capital expenditure
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	387,566	92,598	1,618,868	10,991
South East and Far East Asia	220,973	13,553	463,550	35,640
Europe	63,299	4,497	63,557	1,002
North America	5,315	1,827	260	–
Mainland China	24,172	(6,645)	69,348	3,091
	701,325	105,830	2,215,583	50,724

9. Expenses by nature

Expenses included in cost of sales, selling expenses, general and administration expenses and other operating expenses are analysed as follows:

	Year ended 31 March			Six months ended 30 September	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Cost of stocks sold	455,976	441,344	500,607	231,208	249,278
Amortisation of prepayment of lease premium	7,990	8,385	8,641	4,225	4,445
Depreciation of property, plant and equipment					
– Owned	42,767	41,248	46,255	21,267	23,128
– Leased	603	649	548	268	220
Auditors' remuneration	3,338	3,803	3,907	2,081	2,097
Operating leases					
– Buildings	177,871	174,906	191,006	91,410	108,680
– Machinery	535	497	697	242	404
Amortisation of trademarks	2,422	2,405	2,378	1,136	–
Outgoings in respect of investment properties	1,807	1,768	2,629	938	1,607
Loss on disposal of property, plant and equipment	463	221	96	66	389
Write-down of stocks to net realisable value					
– Hipo. fant *(note a)*	988	1,015	16,962	–	3,263
– adidas *(note b)*	5,598	4,694	9,201	3,174	281
– others	6,675	14,313	12,105	1,178	2,621
Impairment of property, plant and equipment	2,000	–	1,162	–	–
Impairment of prepayment of lease premium	2,800	–	–	–	–
Impairment of debtors and bad debts written off	9,044	2,605	554	406	1,090
Reversal of stock write-downs	–	–	–	(87)	(11,887)
Reversal of impairment of prepayment of lease premium	–	(2,800)	–	–	–
Reversal of impairment of property, plant and equipment	–	–	–	–	(257)
Donations	–	–	3,171	–	–
Employee benefits expenses *(note 10)*	228,961	237,494	262,399	117,926	137,936
Legal expenses written off	10,842	–	–	–	–
Net exchange losses/(gains)	977	(3,292)	(6,253)	1,696	5,664

Notes:

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

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

10. Employee benefits expenses

	Year ended 31 March			Six months ended 30 September	
	2003	2004	2005	2004	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Salaries and allowances	215,758	222,348	244,200	107,895	127,682
Pension contributions less forfeiture utilised	11,191	11,504	12,863	8,390	8,205
Social security costs	1,829	2,543	2,974	1,349	1,514
Other allowances	183	1,099	2,362	292	535
	228,961	237,494	262,399	117,926	137,936

(a) Pensions – defined contribution plans

The Group operated under Occupation Retirement Scheme Ordinance up to 30 November 2000 for employees in Hong Kong. With effect from 1 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$718,000, HK$534,000, HK$680,000, HK$220,000 and HK$167,000 for the years ended 31 March 2003, 2004, 2005 and the six months ended 30 September 2004 and 2005 respectively arising from employees leaving the scheme were utilised to offset contributions during the period. 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 during the Relevant Periods is set out below:

Name	Fees	Basic salaries, allowances, and benefits in kind	Contributions to pensions plans	Discretionary bonus	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 March 2003					
Wong Chue Meng	100	–	–	–	100
Wong Chong Po	80	1,515	–	–	1,595
Joseph C. C. Wong	80	2,740	69	–	2,889
Chu Kai Wah, Anthony	80	1,472	77	–	1,629
Sakorn Kanjanapas	80	–	–	–	80
Lee Shu Chung, Stan	80	1,483	86	–	1,649
Wong Yuk Woon	80	1,690	42	–	1,812
Kwong Yiu Chung	80	–	–	–	80
Chu Chun Keung, Sydney	80	–	–	–	80
	740	8,900	274	–	9,914
For the year ended 31 March 2004					
Wong Chue Meng	–	–	–	–	–
Wong Chong Po	80	1,361	–	920	2,361
Joseph C. C. Wong	80	2,626	64	2,762	5,532
Chu Kai Wah, Anthony	80	1,348	67	920	2,415
Sakorn Kanjanapas	80	–	–	–	80
Lee Shu Chung, Stan	80	1,341	81	920	2,422
Wong Yuk Woon	80	1,575	50	920	2,625
Kwong Yiu Chung	80	–	–	–	80
Chu Chun Keung, Sydney	80	–	–	–	80
	640	8,251	262	6,442	15,595
For the year ended 31 March 2005					
Wong Chong Po	100	1,395	–	1,859	3,354
Joseph C. C. Wong	80	2,703	67	5,576	8,426
Chu Kai Wah, Anthony	80	1,366	74	1,859	3,379
Sakorn Kanjanapas	80	–	–	–	80
Lee Shu Chung, Stan	80	1,375	75	1,859	3,389
Wong Yuk Woon	80	1,617	51	1,859	3,607
Kwong Yiu Chung	80	–	–	–	80
Chu Chun Keung, Sydney	80	–	–	–	80
Wu Chun Sang	100	–	–	–	100
	760	8,456	267	13,012	22,495

10. Employee benefits expenses (Continued)

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

Name	Fees	Basic salaries, allowances, and benefits in kind	Contributions to pensions plans	Discretionary bonus	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the six months ended 30 September 2004 (Unaudited)					
Wong Chue Meng	–	–	–	–	–
Wong Chong Po	50	644	–	429	1,123
Joseph C. C. Wong	40	1,090	6	1,287	2,423
Chu Kai Wah, Anthony	40	646	26	429	1,141
Sakorn Kanjanapas	40	–	–	–	40
Lee Shu Chung, Stan	40	655	26	429	1,150
Wong Yuk Woon	40	757	6	429	1,232
Kwong Yiu Chung	40	–	–	–	40
Chu Chun Keung, Sydney	40	–	–	–	40
	330	3,792	64	3,003	7,189
For the six months ended 30 September 2005					
Wong Chong Po	50	643	–	749	1,442
Joseph C. C. Wong	40	1,112	6	2,245	3,403
Chu Kai Wah, Anthony	40	656	24	749	1,469
Sakorn Kanjanapas	40	–	–	–	40
Lee Shu Chung, Stan	40	648	24	749	1,461
Wong Yuk Woon	40	769	6	749	1,564
Kwong Yiu Chung	40	–	–	–	40
Chu Chun Keung, Sydney	27	–	–	–	27
Wu Chun Sang	50	–	–	–	50
	367	3,828	60	5,241	9,496

During the Relevant Periods, 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.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 March 2003 and 2004 included four directors and for the year ended 31 March 2005 included five directors, whose emoluments are reflected in the analysis presented above. Accordingly, there was one employee for the year ended 31 March 2003 and 2004 and no employee for the year ended 31 March 2005 whose emoluments were among the five highest in the Group.

10. Employee benefits expenses (Continued)

(c) Five highest paid individuals (Continued)

For the six months ended 30 September 2004 and 2005 the five individuals whose emoluments were the highest in the Group include four directors whose emoluments are reflected in the analysis presented above. Accordingly, there was one employee whose emoluments were among the five highest in the Group. The emoluments payable to the remaining individual as stated above during the Relevant Periods are as follows:

	Year ended 31 March			Six months ended 30 September	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Salaries, allowances and benefits in kind	1,573	1,698	–	1,621	1,440
Contributions to pension plan	89	98	–	49	49
Discretionary bonuses	1,151	1,220	–	–	–
	2,813	3,016	–	1,670	1,489

11. Finance costs

	Year ended 31 March			Six months ended 30 September	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Interest on bank loans and overdrafts wholly repayable within five years	25,817	23,920	16,964	10,116	12,403
Interest on other loans wholly repayable within five years	3,084	3,142	2,029	613	542
Interest on finance leases	139	58	42	27	27
	29,040	27,120	19,035	10,756	12,972

12. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the two years ended 31 March 2004 and 2005 and the six months ended 30 September 2004 and 2005 (Year ended 31 March 2003: 16%) less relief for available tax losses. Taxation on overseas profits has been calculated on the estimated assessable profit for the year/period at the rates of taxation prevailing in the territories in which the Group operates.

The amount of taxation charges to the consolidated profit and loss account represents:

	Year ended 31 March			Six months ended 30 September	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Current taxation					
– Hong Kong profits tax	(62)	(70)	(56)	–	–
– Overseas profits tax	(3,249)	(3,875)	(10,777)	(1,324)	(4,009)
– Over/(under) provisions in respect of prior years	77	(1,340)	(1,654)	(702)	(195)
	(3,234)	(5,285)	(12,487)	(2,026)	(4,204)
Deferred taxation *(note 32)*	11,567	(4,220)	(23,595)	–	(7,934)
Taxation credit/(charge)	8,333	(9,505)	(36,082)	(2,026)	(12,138)

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:

	Year ended 31 March			Six months ended 30 September	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
(Loss)/profit before taxation	(37,982)	92,218	207,102	41,492	81,012
Theoretical tax at weighted average rate of 5.81%/24.18%/17.88%/22.87%/19.45%	2,205	(22,295)	(37,030)	(9,488)	(15,754)
Income not subject to taxation for taxation purpose	7,282	8,820	4,792	1,480	2,222
Expenses not deductible for taxation purpose	(10,994)	(7,988)	(8,890)	(2,968)	(4,362)
Temporary differences not recognised	(1,373)	(468)	(582)	–	–
Utilisation of previously unrecognised tax losses	17,086	20,460	23,152	10,339	9,280
Tax losses not recognised	(5,066)	(3,976)	(12,406)	(1,715)	(3,340)
Withholding tax	–	(2,769)	(4,469)	–	(339)
Over/(under) provision in prior years	77	(1,340)	(1,654)	(702)	144
Others	(884)	51	1,005	1,028	11
Taxation credit/(charge)	8,333	(9,505)	(36,082)	(2,026)	(12,138)

13. Loss attributable to equity holders of the Company

The loss attributable to equity holders is dealt with in the financial statements of the Company to the extent of HK$2,491,000, HK$2,366,000 and HK$3,560,000 for the years ended 31 March 2003, 2004 and 2005 respectively; and HK$1,686,000 and HK$1,464,000 for the six months ended 30 September 2004 and 2005 respectively.

14. Dividends

	Year ended 31 March			Six months ended 30 September	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Interim, declared, of HK$0.01 per ordinary share	–	–	9,513	9,513	9,513
Final, proposed, of HK$0.02/HK$0.025 per ordinary share	–	18,867	23,784	–	–
	–	18,867	33,297	9,513	9,513

15. (Loss)/earnings per share

Basic

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

	Year ended 31 March			Six months ended 30 September	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Group's (loss)/profit attributable to equity holders	(29,649)	82,713	171,020	39,466	68,874
Weighted average number of ordinary shares in issue (thousands)	936,340	939,567	947,356	943,438	951,340
Basic (loss)/earnings per share (HK cents per share)	(3.17)	8.80	18.05	4.18	7.24

15. (Loss)/earnings per share (Continued)

Diluted

The diluted earnings per share is calculated by dividing the Group's (loss)/profit 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.

	Year ended 31 March		Six months ended 30 September
	2004	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
			(Unaudited)
Group's profit attributable to equity holders	82,713	171,020	39,466
Weighted average number of ordinary shares in issue (thousands)	939,567	947,356	943,438
– Adjustment for share options (thousands)	64	2,175	3,142
Weighted average number of ordinary shares for diluted earnings per share (thousands)	939,631	949,531	946,580
Diluted earnings per share (HK cents per share)	8.80	18.01	4.17

The diluted earnings per share was the same as the basic earnings per share for the year ended 31 March 2003 as the exercise of the Group's outstanding share options would have an anti-dilutive effect on the loss per share.

The diluted earnings per share was the same as the basic earnings per share for the six months ended 30 September 2005 as there was no outstanding options during the period.

16. Property, plant and equipment

Group

	Buildings	Equipment and others	Total
	HK$'000	*HK$'000*	*HK$'000*
Year ended 31 March 2003			
Opening net book amount	86,902	71,943	158,845
Additions	–	34,552	34,552
Impairment *(note c)*	(2,000)	–	(2,000)
Disposals	–	(910)	(910)
Depreciation charge	(2,154)	(41,216)	(43,370)
Exchange differences	1,005	782	1,787
Closing net book amount	83,753	65,151	148,904
At 31 March 2003			
Cost	114,954	302,638	417,592
Accumulated depreciation	(31,201)	(237,487)	(268,688)
Net book amount	83,753	65,151	148,904
Year ended 31 March 2004			
Opening net book amount	83,753	65,151	148,904
Additions	–	43,169	43,169
Disposals	–	(731)	(731)
Depreciation charge	(2,053)	(39,844)	(41,897)
Exchange differences	3,524	2,242	5,766
Closing net book amount	85,224	69,987	155,211
At 31 March 2004			
Cost	120,240	325,303	445,543
Accumulated depreciation	(35,016)	(255,316)	(290,332)
Net book amount	85,224	69,987	155,211
Year ended 31 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 charge	(2,297)	(44,506)	(46,803)
Exchange differences	407	419	826
Closing net book amount	83,334	71,336	154,670

16. Property, plant and equipment (Continued)

	Buildings	Equipment and others	Total
	HK$'000	*HK$'000*	*HK$'000*
At 31 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
Six months ended 30 September 2005			
Opening net book amount	83,334	71,336	154,670
Additions	–	27,242	27,242
Acquisition of subsidiaries	–	3,107	3,107
Reversal of impairment *(note c)*	–	257	257
Disposals	–	(389)	(389)
Depreciation charge	(801)	(22,547)	(23,348)
Exchange differences	(1,905)	(1,163)	(3,068)
Closing net book amount	80,628	77,843	158,471
At 30 September 2005			
Cost	117,787	364,078	481,865
Accumulated depreciation	(37,159)	(286,235)	(323,394)
Net book amount	80,628	77,843	158,471

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 31 March 2003, 2004, 2005 and 30 September 2005 were approximately HK$61,602,000, HK$57,779,000 HK$56,391,000 and HK$55,104,000 respectively.

(b) At 31 March 2003, 2004, 2005 and 30 September 2005, the net book value of property, plant and equipment held under finance leases amounted to HK$1,632,000, HK$925,000, HK$886,000 and HK$653,000 respectively.

(c) These are included in other operating expenses in the consolidated profit and loss account.

17. Investment properties

Group

	At 31 March			At 30 September
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At beginning of the year/period	565,750	532,520	558,020	712,350
Acquisition of subsidiaries	–	–	–	9,960
Fair value (losses)/gains	(33,230)	25,500	154,330	36,660
At end of year/period	532,520	558,020	712,350	758,970

The investment properties were revalued by independent professionally qualified valuer DTZ Debentian Tie, Leung Limited at 31 March 2003 and 2004 and by Jones Lang La Salle Limited at 31 March 2005 and 30 September 2005 respectively. Valuations were based on open market value of these properties.

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

	At 31 March			At 30 September
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
In Hong Kong, held on:				
– Leases between 10 to 50 years	532,520	558,020	712,350	749,010
Outside Hong Kong:				
– Freehold	–	–	–	9,960
	532,520	558,020	712,350	758,970

Investment properties amounting to HK$531,500,000, HK$557,000,000, HK$711,100,000 and HK$757,660,000 were pledged to secure banking facilities to the Group as at 31 March 2003, 2004, 2005 and as at 30 September 2005 respectively.

18. Prepayment of lease premium

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

	At 31 March			At 30 September
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
In Hong Kong, held on:				
– Leases between 10 to 50 years	104,994	104,283	100,773	99,017
Outside Hong Kong, held on:				
– Leases over 50 years	2,444	2,834	2,914	2,710
– Leases between 10 to 50 years	48,762	49,946	44,150	50,249
– Leases under 10 years	7,764	9,365	14,993	13,455
	163,964	166,428	162,830	165,431

18. Prepayment of lease premium (Continued)

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

	Year ended 31 March			Six month ended 30 September
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At beginning of year/period	165,502	163,964	166,428	162,830
Additions	11,392	2,606	5,649	10,415
(Impairment)/reversal of impairment *(note a)*	(2,800)	2,800	–	–
Disposals	(2,758)	–	(863)	(291)
Amortisation *(note b)*	(7,990)	(8,385)	(8,641)	(4,445)
Exchange differences	618	5,443	257	(3,078)
At end of year/period	163,964	166,428	162,830	165,431

Certain prepayment of lease premium of the Group have been pledged for bank borrowings. The carrying amount of these prepayment of lease premiums at 31 March 2003, 2004, 2005 and 30 September 2005 were approximately HK$107,553,000, HK$116,837,000, HK$109,458,000 and HK$106,677,000 respectively.

Notes:

(a) These are included in other operating expenses in the consolidated profit and loss account.

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

	Year ended 31 March			Six months ended 30 September	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Selling expenses	4,477	4,871	5,130	2,468	2,688
General and administrative expenses	2	3	1	1	1
Other operating expenses	3,511	3,511	3,510	1,756	1,756
	7,990	8,385	8,641	4,225	4,445

19. Subsidiaries and amounts due to subsidiaries

	As at 31 March			As at 30 September
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted investments, at cost less provision	495,150	495,150	495,150	495,150
Amounts due from subsidiaries	116,155	116,155	116,155	116,155
	611,305	611,305	611,305	611,305
Amounts due to subsidiaries	126,694	127,258	161,761	186,987

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 41.

20. Intangible assets

Group

	Goodwill	Trademarks	Total
	HK$'000	*HK$'000*	*HK$'000*
Year ended 31 March 2003			
Opening net book amount	–	23,134	23,134
Exchange differences	–	572	572
Amortisation *(note 9)*	–	(2,422)	(2,422)
Closing net book amount	–	21,284	21,284
At 31 March 2003			
Cost	–	46,434	46,434
Accumulated amortisation	–	(25,150)	(25,150)
Net book amount	–	21,284	21,284
Year ended 31 March 2004			
Opening net book amount	–	21,284	21,284
Exchange differences	–	281	281
Amortisation *(note 9)*	–	(2,405)	(2,405)
Closing net book amount	–	19,160	19,160
At 31 March 2004			
Cost	–	46,434	46,434
Accumulated amortisation	–	(27,274)	(27,274)
Net book amount	–	19,160	19,160
Year ended 31 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

20. Intangible assets (Continued)

	Goodwill	Trademarks	Total
	HK$'000	*HK$'000*	*HK$'000*
At 31 March 2005			
Cost	–	46,434	46,434
Accumulated amortisation	–	(29,382)	(29,382)
Net book amount	–	17,052	17,052
Six months ended 30 September 2005			
Opening net book amount	–	17,052	17,052
Acquisition of subsidiaries	4,231	–	4,231
Exchange differences	–	(19)	(19)
Amortisation *(note 9)*	–	–	–
Closing net book amount	4,231	17,033	21,264
At 30 September 2005			
Cost	4,231	46,434	50,665
Accumulated amortisation	–	(29,401)	(29,401)
Net book amount	4,231	17,033	21,264

Amortisation of trademarks is included in other operating expenses in the consolidated profit and loss account.

21. Investment securities

Group

		At 31 March		At 30 September
	2003	2004	2005	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted overseas shares, at cost	4,299	4,299	4,299	–

22. Available-for-sale financial assets

Group

	As at 30 September 2005
	HK$'000
Beginning of the period, as previously reported	4,299
Opening adjustment transfer to equity on adoption of HKAS 39 *(note 29)*	7,201
Beginning of the period, as restated, and end of the period	11,500

There were no disposals or impairment provisions on available-for-sale financial assets in 2005.

Available-for-sale financial assets as at 30 September 2005 represents the unlisted overseas shares.

23. Stocks

Group

		At 31 March		At 30 September
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	88,081	77,565	60,866	21,356
Work-in-progress	6,617	4,871	1,437	9,149
Finished goods	261,510	266,949	326,546	486,575
	356,208	349,385	388,849	517,080

Stocks that are carried at net realisable value amounted to HK$4,531,000, HK$4,411,000 HK$36,306,000, and HK$48,653,000 as at 31 March 2003, 2004, 2005 and 30 September 2005 respectively.

24. Debtors and prepayments

Group

		At 31 March		At 30 September
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade debtors *(note a)*				
Below 60 days	14,035	19,312	15,360	68,067
Over 60 days	18,984	19,915	28,916	45,680
	33,019	39,227	44,276	113,747
Deposits, prepayments and other debtors *(note b)*	249,637	305,567	248,554	307,289
	282,656	344,794	292,830	421,036

Notes:

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

(b) Included in the balances as at 31 March 2003, 2004, 2005 and 30 September 2005 are amounts due from related companies of HK$174,356,000, HK$179,223,000, HK$143,340,000 and HK$152,938,000 respectively 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:

		At 31 March		At 30 September
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Property development consultancy fee receivable	147,294	147,324	117,919	117,903
Interest receivable	23,144	28,049	32,264	33,928
	170,438	175,373	150,183	151,831
Impairment	(24,198)	(24,198)	(24,198)	(24,198)
	146,240	151,175	125,985	127,633

24. Debtors and prepayments (Continued)

Of the gross amount receivable at 31 March 2003, 2004, 2005 and 30 September 2005, HK$163,191,000, HK$168,096,000, HK$142,906,000 and HK$144,569,000 respectively carry 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. Marketable securities

Group

	At 31 March			At 30 September
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Overseas listed shares, at market value	74	74	83	–
Quoted bonds, at market value	4,290	–	–	–
	4,364	74	83	–

26. Financial assets at fair value through profit or loss

Group

	At 31 March			At 30 September
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Listed shares in Hong Kong, at market value	–	–	–	48,078

27. Bank balances and cash

	Group				Company			
	As at 31 March			As at 30 September	As at 31 March			As at 30 September
	2003	**2004**	**2005**	**2005**	**2003**	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Restricted balances	2,014	2,024	–	–	–	–	–	–
Unrestricted balances	34,761	51,013	64,779	80,480	4	2	10	6
	36,775	53,037	64,779	80,480	4	2	10	6

The restricted balances were pledged to secure banking facilities granted to the Group.

28. Share capital

	Number of shares of HK$0.1 each		Share premium	Total
		HK$'000	*HK$'000*	*HK$'000*
Authorised:				
At 31 March 2003, 2004, 2005 and 30 September 2005	1,600,000,000	160,000		
Issued and fully paid:				
At 1 April 2002 and 31 March 2003	936,340,023	93,634	443	94,077
Issue of shares	7,000,000	700	350	1,050
At 31 March 2004	943,340,023	94,334	793	95,127
Issue of shares	8,000,000	800	1,184	1,984
At 31 March 2005 and 30 September 2005	951,340,023	95,134	1,977	97,111

On 25 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/period are as follows:

	As at 31 March			As at 30 September	
	2003	2004	2005	2004	2005
At the beginning of the year/period	22,000,000	16,000,000	8,000,000	8,000,000	–
Exercised	–	(7,000,000)	(8,000,000)	–	–
Lapsed	(6,000,000)	(1,000,000)	–	–	–
At end of year/period	16,000,000	8,000,000	–	8,000,000	–

Options exercised by certain directors on 24 September 2004, 27 September 2004 and 30 September 2004 respectively (2004: 25 September 2003, 2 October 2003 and 3 October 2003) resulted in 5,000,000, 2,000,000 and 1,000,000 shares (2004: 1,000,000, 1,000,000 and 5,000,000 shares) being issued at HK$0.248 (2004: HK$0.15) each, yielding the following proceeds, before transaction costs of HK$6,000 (2004: HK$8,000):

	Year ended 31 March			Six months ended 30 September	
	2003	2004	2005	2004	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Ordinary share capital – at par	–	700	800	600	–
Share premium	–	350	1,184	888	–
Proceeds	–	1,050	1,984	1,488	–

28. Share capital (Continued)

Notes:

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

	Year ended 31 March 2003	2004	2005
– 25 September 2003	–	330	–
– 2 October 2003	–	295	–
– 3 October 2003	–	1,425	–
– 24 September 2004	–	–	2,700
– 27 September 2004	–	–	1,140
– 30 September 2004	–	–	570

(b) No share options were outstanding at 31 March 2005 and 30 September 2005. As at 31 March 2004 and 31 March 2003, share options outstanding had the following terms:

Expiry date	Exercise price *HK$*	Number of options 2003	2004	2005	Vested percentage 2003	2004	2005
Directors							
25 October 2003	0.150	6,000,000	–	–	100%	–	–
16 January 2005	0.248	8,000,000	8,000,000	–	100%	100%	–
		14,000,000	8,000,000	–			
Other employees							
25 October 2003	0.150	2,000,000	–	–	100%	–	–
		16,000,000	8,000,000	–			

29. Reserves

Group

	Contribution surplus *HK$'000*	(Accumulated loss)/ retained profits *HK$'000*	Total *HK$'000*
At 1 April 2002	2,848,462	(2,196,198)	652,264
Exchange difference	–	5,593	5,593
Loss for the year	–	(29,649)	(29,649)
At 31 March 2003 and 1 April 2003	2,848,462	(2,220,254)	628,208
Exchange difference	–	16,421	16,421
Profit for the year	–	82,713	82,713
At 31 March 2004	2,848,462	(2,121,120)	727,342
Representing:			
2004 final proposed dividend			18,867
Reserves			708,475
			727,342
At 1 April 2004	2,848,462	(2,121,120)	727,342
Transfer *(note)*	(2,848,462)	2,848,462	–
Exchange difference	–	(3,646)	(3,646)
Profit for the year	–	171,020	171,020
Dividends paid	–	(28,380)	(28,380)
At 31 March 2005	–	866,336	866,336
Representing:			
2005 final proposed dividend			23,784
Reserves			842,552
			866,336

29. Reserves (Continued)

	Contribution surplus	Investment revaluation reserve	(Accumulated loss)/ retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2005				
As previously reported	–	–	866,336	866,336
Opening adjustment on adoption of HKAS 39	–	7,201	–	7,201
As restated	–	7,201	866,336	873,537
Exchange difference	–	–	(5,738)	(5,738)
Profit for the period	–	–	68,874	68,874
Dividends paid	–	–	(23,784)	(23,784)
At 30 September 2005	–	7,201	905,688	912,889
Representing:				
2005/06 interim dividend				9,513
Reserves				903,376
				912,889

29. Reserves (Continued)

Company

	Contributed surplus	(Accumulated loss)/ retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 April 2002	4,085,186	(3,697,620)	387,566
Loss for the year	–	(2,491)	(2,491)
At 31 March 2003	4,085,186	(3,700,111)	385,075
At 1 April 2003	4,085,186	(3,700,111)	385,075
Loss for the year	–	(2,366)	(2,366)
At 31 March 2004	4,085,186	(3,702,477)	382,709
Representing:			
2004 final proposed dividend			18,867
Reserves			363,842
			382,709
At 1 April 2004	4,085,186	(3,702,477)	382,709
Transfer *(note)*	(4,085,186)	4,085,186	–
Loss for the year	–	(3,560)	(3,560)
Dividends paid	–	(28,380)	(28,380)
At 31 March 2005	–	350,769	350,769
Representing:			
2005 final proposed dividend			23,784
Reserves			326,985
			350,769
At 1 April 2005	–	350,769	350,769
Loss for the year	–	(1,464)	(1,464)
Dividends paid	–	(23,784)	(23,784)
At 30 September 2005	–	325,521	325,521
Representing:			
2005/06 interim dividend			9,513
Reserves			316,008
			325,521

At 31 March 2003, 2004, 2005 and 30 September 2005, the distributable reserves of the Company available for distribution as dividends to equity holders amounted to, HK$385,075,000, HK$382,709,000, HK$350,769,000 and HK$325,521,000 respectively.

29. Reserves (Continued)

Note:

A special general meeting of the shareholders was held on 6 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.

30. Creditors and accruals

Group

		As at 31 March		As at 30 September
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade creditors				
Below 60 days	67,546	81,622	62,306	150,634
Over 60 days	67,354	63,151	69,622	77,031
	134,900	144,773	131,928	227,665
Other creditors and accruals *(note)*	111,246	132,408	152,508	171,452
	246,146	277,181	284,436	399,117

Note: Included in other creditors and accruals as at 31 March 2003, 2004, 2005 and 30 September 2005 are amounts due to related companies of HK$7,842,000, HK$7,373,000, HK$7,049,000 and HK$6,756,000 respectively, which are unsecured, interest free and have no fixed terms of repayment.

31. Bank loans and overdrafts and other non-current liabilities

Group

		As at 31 March		As at 30 September
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans and overdrafts *(note a)*	528,536	503,229	495,440	601,440
Loans from related companies *(note b)*	34,250	24,580	11,580	41,609
Loan from a director *(note c)*	13,444	13,444	–	–
Obligations under finance leases *(note d)*	1,133	663	817	834
	577,363	541,916	507,837	643,883
Amount repayable within one year included in current portion of other non-current liabilities	(26,049)	(57,278)	(23,465)	(15,292)
Bank overdrafts and short term loans included in current liabilities	(242,907)	(234,369)	(204,653)	(227,916)
	308,407	250,269	279,719	400,675

31. Bank loans and overdrafts and other non-current liabilities (Continued)

	As at 31 March			As at 30 September
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
(a) Bank loans and overdrafts				
Secured	487,582	453,949	431,845	502,913
Unsecured	40,954	49,280	63,595	98,527
	528,536	503,229	495,440	601,440
The long term bank loans are repayable as follows:				
Not exceeding one year	21,248	19,025	11,617	14,993
More than one year, but not exceeding two years	16,109	239,211	14,242	29,427
More than two years, but not exceeding five years	248,272	10,624	207,728	263,049
More than five years	–	–	57,200	66,055
	285,629	268,860	290,787	373,524

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

	As at 31 March			As at 30 September
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong dollars	511,626	485,163	480,859	575,915
Other foreign currencies	16,910	18,066	14,581	25,525
	528,536	503,229	495,440	601,440

The weighted average effective interest rates per annum for bank loans at 31 March 2003, 2004 and 2005 and 30 September 2005 were 4.97%, 4.64%, 3.40% and 4.52% respectively.

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

	As at 31 March			As at 30 September
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Carrying amounts	528,536	503,229	495,440	601,440
Fair values	528,042	502,866	494,893	600,731

The fair values are based on discounted flows using rates based on the borrowings rates at 5.02%, 4.69%, 3.45% and 4.57% as at 31 March 2003, 2004 and 2005 and 30 September 2005, with reference to the types and currencies of borrowings.

The carrying amounts of current borrowings approximate their fair values.

31. Bank loans and overdrafts and other non-current liabilities (Continued)

(b) Loans from related companies

	As at 31 March			As at 30 September
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The loans from related companies are repayable as follows:				
Not exceeding one year	4,250	24,580	11,580	–
More than one year, but not exceeding two years	30,000	–	–	41,609
	34,250	24,580	11,580	41,609

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

	As at 31 March			As at 30 September
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong dollars	34,250	24,580	11,580	–
Other foreign currencies	–	–	–	41,609
	34,250	24,580	11,580	41,609

The weighted average effective interest rates per annum for loan from related companies at 31 March 2003, 2004 and 2005 and 30 September 2005 were 5.00%, 5.06%, 3.25% and 5.25% respectively.

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

	As at 31 March			As at 30 September
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Carrying amounts	34,250	24,580	11,580	41,609
Fair values	34,100	24,522	11,579	41,474

The fair values are based on discounted cash flows using rates based on the borrowings rates at 5.25%, 5.31%, 3.50% and 5.50% as at 31 March 2003, 2004 and 2005 and 30 September 2005, with reference to the types and currencies of borrowings.

The carrying amounts of loans from related companies approximate their fair values.

31. Bank loans and overdrafts and other non-current liabilities (Continued)

(b) Loans from related companies (Continued)

Loans from a related company as at 31 March 2003, 2004 and 2005 was unsecured, bore interest at prime rate for the year ended 31 March 2003 and 2004 and at prime rate less 2% for the year ended 31 March 2005. The loan was fully repaid on 29 April 2005.

Loans from related companies as at 30 September 2005 are unsecured, bears interest at prime rate less 2% and not obligated to be repaid within the next twelve months from 30 September 2005 but must be fully repaid on 31 March 2007. The carrying amounts of loans from related companies approximate their fair value.

(c) Loan from a director

The loan was wholly repaid on 30 April 2004. It was unsecured and bore interest at 1.5% per annum above US Dollar best lending rate.

	As at 31 March			As at 30 September
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Loan from a director is repayable as follows:				
Not exceeding one year	–	13,444	–	–
More than one year, but not exceeding two years	13,444	–	–	–
	13,444	13,444	–	–

An analysis of the carrying amounts of the loan from a director by type and currency is as follows:

	As at 31 March			As at 30 September
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong dollars	–	–	–	–
Other foreign currencies	13,444	13,444	–	–
	13,444	13,444	–	–

The weighted average effective interest rates per annum for loan from a director at 31 March 2003 and 2004 were 5.75% and 5.50% respectively.

31. Bank loans and overdrafts and other non-current liabilities (Continued)

(c) Loan from a director (Continued)

The carrying amounts and fair values of loan from a director are as follows:

	As at 31 March			As at 30 September
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Carrying amounts	13,444	13,444	–	–
Fair values	13,410	13,444	–	–

The fair values are based on discounted cash flows using rates based on the borrowings rates at 6.00% and 5.75% as at 31 March 2003 and 2004, with reference to the types and currencies of borrowings.

The carrying amounts of loans from a director approximate their fair values.

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

	As at 31 March			As at 30 September
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Not exceeding one year	610	270	311	342
More than one year, but not exceeding two years	229	166	300	251
More than two years, but not exceeding five years	367	320	342	367
More than five years	104	40	–	–
	1,310	796	953	960
Future finance charges on finance leases	(177)	(133)	(136)	(126)
Present value of finance lease liabilities	1,133	663	817	834
The present value of finance lease liabilities is as follows:				
Not exceeding one year	551	229	268	299
More than one year, but not exceeding two years	199	138	253	219
More than two years, but not exceeding five years	301	262	296	316
More than five years	82	34	–	–
	1,133	663	817	834

32. Deferred taxation

Group

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16% as at 31 March 2003 and 17.5% as at 31 March 2004, 2005 and 30 September 2005.

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:

	As at 31 March			As at 30 September
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deferred tax assets	25,019	26,910	32,875	33,273
Deferred tax liabilities	(12,940)	(18,638)	(47,985)	(57,027)
	12,079	8,272	(15,110)	(23,754)

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

	Deferred tax assets/(liabilities)			
	Tax losses	**Accelerated depreciation allowances**	**Other temporary differences**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31 March 2002 and 1 April 2003	9,397	(14,269)	5,314	442
Transfer to profit and loss account	6,103	3,196	2,268	11,567
Exchange difference	31	41	(2)	70
At 31 March 2003 and 1 April 2003	15,531	(11,032)	7,580	12,079
Transfer to profit and loss account	861	(7,074)	1,993	(4,220)
Exchange difference	478	106	(171)	413
At 31 March 2004 and 1 April 2004	16,870	(18,000)	9,402	8,272
Transfer to profit and loss account	(2,735)	(25,241)	4,381	(23,595)
Exchange difference	10	130	73	213
At 31 March 2005 and 1 April 2005	14,145	(43,111)	13,856	(15,110)
Transfer to profit and loss account	(952)	(7,624)	642	(7,934)
Exchange difference	–	(77)	(17)	(94)
Acquisition of subsidiaries	–	(1,489)	873	(616)
At 30 September 2005	13,193	(52,301)	15,354	(23,754)

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 31 March 2003, 2004, 2005 and 30 September 2005, the Group had unrecognised tax losses of HK$431,152,000, HK$369,920,000, HK$323,253,000 and HK$302,357,000 respectively to carry forward against future taxable income. Tax losses have no expiry date except HK$37,913,000 and HK$10,557,000 at 31 March 2003 and 2004 respectively will be expired on 31 March 2007.

33. Loans from the ultimate holding company

Group

The loan is unsecured, interest bearing at Hong Kong prevailing base lending rate (quoted by one major bank in Hong Kong) less 2%, and repayable on demand.

34. Loans from shareholders

Group and Company

The loans, which were provided by the estate of Mr Wong Chue Meng, were unsecured, interest free and had no fixed terms of repayment for the year ended 31 March 2003 and 2004 and unsecured, interest bearing at Hong Kong prevailing bank lending rate less 2%, and repayable on demand for the six months ended 30 September 2005.

35. Loans from a director

Group

(a) The Hong Kong Dollar loan of HK$1,101,000 at 31 March 2005 and HK$1,110,000 at 30 September 2005 are unsecured, interest-bearing at 1.5% per annum, and repayable at one month notice given by the director.

(b) The Thai Baht loan of HK$7,547,000 at 31 March 2005 and HK$7,178,000 at 30 September 2005 are unsecured, interest-bearing at 6.75% per annum, repayable in May 2005 and was renewed for another six months to mature in November 2005.

36. Note to the consolidated cash flow statements

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

	Year ended 31 March			Six months ended 30 September	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
(Loss)/profit before taxation	(37,982)	92,218	207,102	41,492	81,012
Depreciation	43,370	41,897	46,803	21,515	23,348
Gain on disposal of buildings	(110)	–	–	–	–
Loss on disposal of property, plant and equipment	463	221	96	66	680
Fair value (gains)/losses of investment properties	33,230	(25,500)	(154,330)	–	(36,660)
Impairment/(reversal of impairment) of prepayment of lease premium	2,800	(2,800)	–	–	–
Fair value gain of financial assets	–	–	–	–	(7,999)
Impairment/(reversal of impairment) of property, plant and equipment	2,000	–	1,162	–	(257)
Amortisation of prepayment of lease premium	7,990	8,385	8,641	4,225	4,445
Compensation received from arbitration	–	(30,080)	–	–	(31,774)
Amortisation of trademarks	2,422	2,405	2,378	1,136	–
Interest income	(6,988)	(7,033)	(6,872)	(3,066)	(2,668)
Interest expenses	29,040	27,120	19,035	10,756	12,972
Dividend income	(1,946)	(1,084)	(1,195)	(4)	(4)
Net exchange losses/(gains)	405	(3,573)	(6,253)	1,696	5,664
Effect of foreign exchange rate changes	6,197	8,507	1,279	(3,927)	(5,337)
Operating profit before working capital changes	80,891	110,683	117,846	73,889	43,422
(Increase)/decrease in stocks	(1,166)	6,823	(39,464)	(82,180)	(64,488)
Decrease/(increase) in debtors and prepayments	3,244	(3,950)	28,635	18,110	(34,352)
(Decrease)/increase in creditors and accruals	(43,798)	11,786	10,203	45,806	63,229
Decrease/(increase) in balances with related companies	2,172	(3,531)	24,181	31,990	4,953
(Increase)/decrease in restricted bank balance	(2,014)	(10)	2,024	(304)	–
Increase in financial assets at fair value through profit or loss	–	–	–	–	(40,001)
Cash generated from/(used in) operations	39,329	121,801	143,425	87,311	(27,237)

36. Note to the consolidated cash flow statements (Continued)

(b) Analysis of changes in financing during the year/period:

	Dividend payable	Bank loans and other loans	Obligations under finance lease	Share capital (including premium)	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 April 2002	–	539,944	1,117	94,077	1,461	636,599
Net cash inflow/(outflow) from financing	–	16,221	(789)	–	–	15,432
Inception of finance leases	–	–	759	–	–	759
Exchange differences	–	4,007	46	–	12	4,065
At 31 March 2003	–	560,172	1,133	94,077	1,473	656,855
Balance at 1 April 2003	–	560,172	1,133	94,077	1,473	656,855
Net cash inflow/(outflow) from financing	–	(33,448)	(593)	1,050	–	(32,991)
Inception of finance leases	–	–	81	–	–	81
Exchange differences	–	241	42	–	133	416
At 31 March 2004	–	526,965	663	95,127	1,606	624,361
Balance at 1 April 2004	–	526,965	663	95,127	1,606	624,361
Dividends	28,380	–	–	–	–	28,380
Net cash inflow/(outflow) from financing	(28,380)	(26,104)	(404)	1,984	883	(52,021)
Inception of finance leases	–	–	553	–	–	553
Exchange differences	–	237	5	–	5	247
At 31 March 2005	–	501,098	817	97,111	2,494	601,520
Balance at 1 April 2004	–	526,965	663	95,127	1,606	624,361
Dividends	18,867	–	–	–	–	18,867
Net cash inflow/(outflow) from financing	(18,867)	(39,807)	(230)	1,488	–	(57,416)
Inception of finance leases	–	–	545	–	–	545
Exchange differences	–	79	(2)	–	–	77
At 30 September 2004	–	487,237	976	96,615	1,606	586,434
Balance at 1 April 2005	–	501,098	817	97,111	2,494	601,520
Dividends	23,784	–	–	–	–	23,784
Net cash inflow/(outflow) from financing	(23,784)	150,661	(190)	–	–	126,687
Inception of finance leases	–	–	222	–	–	222
Acquisition of subsidiaries	–	–	–	–	3,873	3,873
Exchange differences	–	(1,212)	(15)	–	(79)	(1,306)
At 30 September 2005	–	650,547	834	97,111	6,288	754,780

37. Contingent liabilities

Group

	As at 31 March			As at 30 September
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bills discounted	7,262	5,448	6,796	–

Company

	As at 31 March			As at 30 September
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Guarantees to secure banking facilities for subsidiaries	1,169,637	768,910	676,993	857,113
Other guarantees for subsidiaries	2,246	2,374	2,409	2,374

38. Commitments

Group

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

	As at 31 March			As at 30 September
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contracted but not provided for	–	–	1,825	4,126
Authorised but not contracted for	–	–	420	–
	–	–	2,245	4,126

(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:

	As at 31 March			As at 30 September
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Buildings				
Not later than one year	152,488	165,607	181,449	179,022
Later than one year but not later than five years	126,706	132,273	171,624	147,110
	279,194	297,880	353,073	326,132
Machinery				
Not later than one year	17	–	–	–
	279,211	297,880	353,073	326,132

38. Commitments (Continued)

(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:

	As at 31 March			As at 30 September
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Buildings				
Not later than one year	29,400	21,496	19,494	25,659
Later than one year but not later than five years	13,459	12,841	12,854	38,760
	42,859	34,337	32,348	64,419

39. Related party transactions

The Group is controlled by the estate of Mr Wong Chue Meng. It is interested in approximately 70% of the issued share capital of the Company. The remaining 30% 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.

(a) 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

	Year ended 31 March			Six months ended 30 September	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Rental income received and receivable from related companies*	1,811	1,812	1,691	881	810
Interest income from a related company**	4,753	4,905	4,215	2,139	1,664

The related companies are companies which are subsidiaries of Yee Hing Company Limited or controlled by certain substantial shareholders of the Company.

* *On 14 August 2001, Stelux Holdings Limited, a 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 14 August 2004 at a monthly rental of HK$55,900 and HK$95,040 respectively.*

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

** *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 24(b)).*

39. Related party transactions (Continued)

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

	Year ended 31 March			Six months ended 30 September	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Purchase of goods:					
– Related companies	4,836	8,370	10,692	5,597	6,882
– Subsidiaries *(note)*	30,050	29,255	41,568	23,772	24,131
Purchase of service:					
– Ultimate holding company	–	128	–	–	–
Interest expense to a related company	1,774	1,450	566	349	30
Interest expense to a shareholder	–	–	–	–	50
Interest expense to directors	746	774	62	774	8
Interest expense to the ultimate holding company	–	–	–	–	88
	37,406	39,977	52,888	30,492	31,189

The related companies are companies which are subsidiaries of Yee Hing Company Limited or controlled by certain substantial shareholders of the Company.

Note: 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.

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

	Year ended 31 March			Six months ended 30 September	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Rent receivable from related companies	229	153	145	141	125
Interest receivable from a related company *(note 39(a)(i)**)*	23,144	28,049	32,264	30,189	33,928
Trading balances receivable from a related company	1,112	1,239	663	1,045	663
Trading balances payable to related companies	939	2,235	2,704	1,422	4,883

Except for the interest receivable from a related company as stated above, these related party balances are all unsecured, interest free and have no fixed terms of repayment.

39. Related party transactions (Continued)

(iv) Key management compensation

	Year ended 31 March			Six months ended 30 September	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Salaries and other short-term employee benefits	13,348	19,425	26,655	9,308	11,525
Other long-term benefits	375	372	378	119	115
	13,723	19,797	27,033	9,427	11,640

40. Acquisition of subsidiaries

On 30 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.

40. Acquisition of subsidiaries (Continued)

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

There were no significant acquisition for the years ended 31 March 2003, 2004 and 2005.

41. Principal subsidiaries

	Place of Incorporation/ operation	Principal activities	Share capital issued Number	Par value	Percentage of equity attributable to the Group At 31 March 2003	2004	2005	At 30 September 2005
Investment								
Stelux Holdings International (BVI) Limited	British Virgin Islands	Investment holding	2	US$1	100 [a]	100 [a]	100 [a]	100 [a]
Stelux Holdings Limited	Hong Kong	Investment holding and property investment	1,000	HK$1	100	100	100	100
Stelux Watch Holdings Limited (in members' voluntary liquidation)	Singapore	Investment holding	35,617,861	S$1	100	100	100	100
Property								
City Chain Properties Limited	Hong Kong	Property investment	2	HK$1	100	100	100	100
King Eagle Investment Limited	Hong Kong	Property investment	4,583,719	HK$1	100	100	100	100
Optical 88 Properties Limited	Hong Kong	Property investment	2	HK$1	100	100	100	100
Prime Master Limited	Hong Kong	Property investment	2	HK$1	100	100	100	100
Stelux Consultants B.V.	The Netherlands	Property development and project consultancy	80	DFL500	100	100	100	100
Stelux Properties Agency Limited	Hong Kong	Property agency and management	2	HK$1	100	100	100	100
Stelux Properties Limited	Hong Kong	Property investment and development	500	HK$100	100	100	100	100

41. Principal subsidiaries (Continued)

	Place of Incorporation/ operation	Principal activities	Share capital issued Number	Par value	Percentage of equity attributable to the Group At 31 March 2003	2004	2005	At 30 September 2005
Retailing and trading								
City Chain Company Limited	Hong Kong	Watch retailing	250,000	HK$100	100	100	100	100
City Chain (M) Sdn Bhd	Malaysia	Watch retailing	3,333,333	RM1	92.5	92.5	92.5	92.5
City Chain (Macau) Company Limited	Macau	Watch retailing	2	MOP5,000	100	100	100	100
City Chain Stores (S) Pte Limited	Singapore	Watch retailing	1,800,000	S$1	100	100	100	100
Titus International Trading (Taiwan) Company Limited	Hong Kong/ Taiwan	Watch retailing/ distribution	1,000	HK$10	100	100	100	100
City Chain (Thailand) Company Limited	Thailand	Watch retailing	200,000 210,000[b]	Baht100 Baht100	100	100	100	100
Evergreen Fame Sdn Bhd	Malaysia	Watch distribution	320,000	RM1	92.5	92.5	92.5	92.5
Universal Geneve S.A.	Switzerland	Watch assembling and distribution	5,000	SFr1,000	100	100	100	100
Optical 88 Limited	Hong Kong	Glasses and related optical gears retailing	30,700,000	HK$1	100	100	100	100
Optical 88 (Macau) Limited	Macau	Glasses and related optical gears retailing	2	MOP5,000	100	100	100	100
Optical 88(S) Pte Limited	Singapore	Glasses and related optical gears retailing	500,000	S$1	100	100	100	100
Optical 88 (Thailand) Company Limited	Thailand	Glasses and related optical gears retailing	245,000 255,000[b]	Baht10 Baht10	100	100	100	100
Optical 88 Eyecare (M) Sdn Bhd	Malaysia	Glasses and related optical gears retailing	1,428,572	RM1	100	100	70	70
Poco Hippo Company Limited	Hong Kong	Infant wear marketing and retailing	2	HK$100	100	100	100	100

41. Principal subsidiaries (Continued)

	Place of Incorporation/ operation	Principal activities	Share capital issued Number	Par value	Percentage of equity attributable to the Group At 31 March 2003	2004	2005	At 30 September 2005
Poco Hippo Co (S) Pte Limited	Singapore	Infant wear marketing and retailing	100,000	S$1	100	100	100	100
Pronto Watch S.A.	Switzerland	Watch distribution	100	SFr1,000	100	100	100	100
Solvil et Titus S.A.	Switzerland	Watch distribution	300	SFr1,000	100	100	100	100
Stelux International Licensing Limited	Bahamas	Trademark holding and licensing	2	US$1	100	100	100	100
Stelux Trading (International) Limited	Hong Kong	Watch distribution	2	HK$1	100	100	100	100
Stelux Watch Limited	Hong Kong/ People's Republic of China	Watch assembling	1,000,000	HK$1	100	100	100	100
Stelux Watch (UK) Limited	England	Watch distribution	3,041,536	GBP1	100	100	100	100
Time House (Europe) Limited	Hong Kong	Watch distribution	10,000	HK$1	100	100	100	100
Thong Sia Watch Company Limited	Hong Kong	Watch distribution	80,000	HK$1	–	–	–	96.0
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	100	100

41. Principal subsidiaries (Continued)

	Place of Incorporation/ operation	Principal activities	Registered capital issued Amount	Percentage of equity attributable to the Group At 31 March 2003	2004	2005	At 30 September 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$3,300,000	100	100	100	100
City Chain (Gunagdong) Company Limited	People's Republic of China/Mainland China (foreign-invested commercial enterprise)	Watch retailing, trading and related services	HK$3,000,000	–	–	100	100
Baoshi (Guangdong) Company Limited	People's Republic of China/Mainland China (foreign-invested commercial enterprise)	Retailing, trading and related optical services	HK$3,000,000	–	–	100	100

a *Directly held subsidiary company*

b *Non-redeemable preference shares*

42. Ultimate holding company

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

(III) EVENT AFTER THE BALANCE SHEET DATE

On 20 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 (the "Agreement") 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 (BVI)"), a subsidiary of the Company, following a group reorganisation. Following the completion of such group reorganisation and immediately prior to the completion of the Agreement, the sole assets of Stelux (BVI) will be the entire issued share capital of Stelux Holdings Limited ("SHL") and SHL, which is the current registered owner of 100% interest in Stelux House, will in turn own the property as its sole asset.

The revenues, expenses and results, assets and liabilities, and cash flows in relation to the Property, being the sole asset of Stelux (BVI) upon completion of the abovementioned group reorganisation, is set out as follows:

(a) Revenues, expenses and results

	For the year ended 31 March			For the six months ended 30 September	
	2003	2004	2005	2004	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Revenues	32,691	30,308	22,566	11,650	13,228
Fair value (losses)/gains of investment properties	(31,850)	27,300	145,600	–	36,400
Compensation received from arbitration	–	–	–	–	38,489
Other gains	9,985	9,536	8,558	4,095	4,406
Other operating expenses	(14,675)	(13,967)	(13,941)	(6,711)	(9,291)
Operating (loss)/profit before financing	(3,849)	53,177	162,783	9,034	83,232
Finance costs	(19,460)	(19,029)	(13,737)	(7,960)	(8,188)
(Loss)/profit before taxation	(23,309)	34,148	149,046	1,074	75,044
Taxation	1,790	(6,923)	(25,075)	–	(7,414)
(Loss)/profit after taxation	(21,519)	27,225	123,971	1,074	67,630

(b) Assets and liabilities

	As at 31 March			As at 30 September	
	2003	**2004**	**2005**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
ASSETS					
Non-current assets					
Property, plant and equipment	35,326	34,523	33,721	34,122	33,320
Investment properties	518,700	546,000	691,600	546,000	728,000
Prepayment of lease premium	18,924	18,494	18,064	18,279	17,849
	572,950	599,017	743,385	598,401	779,169
EQUITY					
Reserves attributable to Stelux House	184,737	221,757	336,091	222,340	396,679
LIABILITIES					
Non-current liabilities					
Deferred tax liabilities	15,178	22,101	47,176	22,101	54,590
Other non-current liabilities	230,000	230,000	261,400	241,400	315,200
	245,178	252,101	308,576	263,501	369,790
Current liabilities					
Creditors and accruals					
Deposits received from tenants	9,518	8,088	7,555	6,405	7,900
Current portion of other non-current liabilities	–	–	3,600	3,600	4,800
Bank overdrafts and short term loans, secured	133,517	117,071	87,563	102,555	–
	143,035	125,159	98,718	112,560	12,700
Total liabilities	388,213	377,260	407,294	376,061	382,490
Total equity and liabilities	572,950	599,017	743,385	598,401	779,169

(c) Cash flows

	For the year ended 31 March			For the six months ended 30 September	
	2003	2004	2005	2004	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Net cash from operating activities	10,546	6,651	4,145	7	39,605
Net cash from/(used in) financing activities	1,568	(16,446)	5,492	484	(32,563)
	12,114	(9,795)	9,637	491	7,042

(IV) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Company and its subsidiaries in respect of any period subsequent to 30 September 2005 and up to the date of report.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

1. INDEBTEDNESS

Borrowings

At the close of business on 31 December 2005, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had total borrowings of approximately HK$714.2 million, comprising bank loans of approximately HK$631.8 million, (in which balances of approximately HK$142.5 million were unsecured, and the remaining balances of approximately HK$489.3 million were secured by legal charges over certain properties of the Group), three unsecured loans from a director in a total sum of approximately HK$13.8 million, two unsecured loans from two related companies in a total sum of approximately HK$42.8 million, an unsecured loan from the ultimate holding company of HK$25 million and obligations under finance leases in a total sum of approximately HK$0.8 million.

Of the Group's bank borrowings, 4% 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 maturity profiles of the Group's total borrowings as at 31 December 2005 are set out as follows:

	HK$' million	*HK$' million*
Bank loans repayable		
Within one year	282.90	
Between one and two years	26.00	
Between two and five years	258.20	
After five years	64.70	
		631.80
Loans from a director repayable		
Within one year		13.80
Loans from related companies repayable		
Between one and two years		42.80
Loan from the ultimate holding company		
Within one year		25.00
Obligations under finance leases repayable		
Within one year	0.30	
Between one and two years	0.20	
Between two and five years	0.30	
		0.80
		714.20

Contingent Liabilities

A sale and purchase agreement was entered into between the Company and the ultimate holding company of the Company, Yee Hing, on 20 December 2005 for the disposal of Stelux House to Yee Hing. In accordance with the terms of the said agreement, the Group's maximum liability with respect to warranties and indemnities provided in relation to such disposal amounted to HK$200,000,000 upon completion of the such disposal. There was no other contingent liability as at 31 December 2005.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, the Group did not have any debt securities, any other outstanding loan capital, any other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptance (other than normal trade bills) or other similar indebtedness, debentures, mortgages, charges, loans, acceptance credits, hire purchase commitments, guarantees or other material contingent liabilities at the close of business on 31 December 2005.

For the purpose of the above statement of indebtedness, foreign currency amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 31 December 2005.

2. WORKING CAPITAL

Taking into account financial resources available to the Group, including internally generated funds, available banking facilities and the estimated net proceeds from the Disposal, the Directors are of the opinion that the Group will have sufficient working capital for its present requirements.

3. ACQUISITION OF SUBSIDIARIES

On 30 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 for a total cash consideration of HK$55,267,775. The aggregate of the remuneration payable to and benefits in kind receivable by the Directors have not been varied in consequence of such acquisitions.

As the acquisition of the abovementioned three companies was completed on 30 September 2005, the assets and liabilities were therefore incorporated into the Group's consolidated balance sheet as at 30 September 2005. Results of these subsidiaries will be taken up by the remaining Group after 30 September 2005. There were no other significant acquisitions of associated companies during the interim period.

4. LIQUIDITY AND FINANCIAL RESOURCES

Assuming that the Disposal had taken place on 30 September 2005 for the effect on the consolidated balance sheet of the remaining Group and on 1 April 2005 for the profit and loss accounts of the remaining Group, the shareholders' funds of the remaining Group, including the profit generated during the six months ended 30 September 2005, net gain on the Disposal, tax credit arising from the reversal of deferred tax liabilities upon the Disposal and after distribution of the Special Dividend would be approximately HK$624 million.

The remaining Group's bank borrowings as at 30 September 2005 would be approximately HK$281 million, out of which, approximately HK$238 million would be repayable within 12 months. The remaining Group's gearing ratio as at 30 September 2005 would be approximately 0.45, which was calculated based on the remaining Group's bank borrowings and shareholders' funds of approximately HK$624 million. Of the remaining Group's bank borrowings as at 30 September 2005, approximately 9% would be denominated in foreign currencies.

The remaining Group's cash and cash equivalent as at 30 September 2005 would be approximately HK$90,880,000, of which approximately HK$39,824,000 would be held in Hong Kong dollars and approximately equivalent to HK$51,056,000 would be held in foreign currencies.

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 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.

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

The Group has prudent liquidity risk management which 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. Financing and cash management activities of the remaining Group are coordinated at head-office for the best utilisation of the remaining Group's financial resources.

The maturity profiles of the outstanding bank loans of the remaining Group as at 30 September 2005 were analysed as follows:

	HK$' million	
Maturity profiles:		
Bank loans repayable		
Within one year	238.1	84.6%
Between one and two years	12.6	4.5%
Between two and five years	19.4	6.9%
After five years	11.3	4.0%
	281.4	
Secured	182.9	65.0%
Unsecured	98.5	35.0%
	281.4	

The loans from a director of HK$1,110,000 as at 30 September 2005 was unsecured, interest-bearing at 1.5% per annum, and repayable at one month notice given by the director. The Thai Baht loan of approximately HK$7,178,000 as at 30 September 2005 was unsecured, interest-bearing at 6.75% per annum, repayable in November 2005 and was renewed for another six months to mature in May 2006.

As at 30 September 2005, certain of the remaining Group's freehold land and buildings amounting to approximately HK$21,784,000, investment properties amounting to approximately HK$29,660,000 and leasehold land amounting to approximately HK$88,828,000 were pledged to secure banking facilities granted to the remaining Group.

Save for the HK$200,000,000 guarantee provided by the Company to Yee Hing with respect to the sale and purchase agreement entered into between the Company and Yee Hing on 20 December 2005 in respect of the Disposal, the remaining Group had no other contingent liability as at 30 September 2005.

There was no change in the capital structure of the remaining Group during the six months ended 30 September 2005. No option had been granted during the period and there was no option outstanding as at 30 September 2005.

During the six months ended 30 September 2005, there was no purchase, sale or redemption by the Company, or any of its subsidiary companies, of the Company's listed securities.

5. SEGMENTAL INFORMATION

The remaining Group would have three business segments; namely the retailing and wholesaling of watches and optical products and the retail chain store specialising in infant and children's wear, accessories, bedding products and toys (the "Hipo.fant Business"). As announced by the Company on 14 July 2005, the Company expected to close the Hipo.fant Business by 31 January 2006. Following the closure of the Hipo.fant Business, the remaining Group would focus its business on the retailing and wholesaling of watches and optical products. The Directors believe that the future operating results of the remaining Group will no longer be directly affected by fluctuations in the property market.

6. SIGNIFICANT INVESTMENT HELD

The Group acquired certain equity shares of a listed company at a total consideration of approximately HK$40 million during the six months ended 30 September 2005 for short term investment and dividend income purpose. Therefore, the result of this company will not be taken up by the remaining Group. Increase in fair value of these equity shares of approximately HK$8 million was recognised as fair value gain on financial assets at fair value through profit or loss for the period ended 30 September 2005.

7. EMPLOYEES

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.

The Group operated under the Occupation Retirement Scheme Ordinance up to 30 November 2000 for employees in Hong Kong. With effect from 1 December 2000, a mandatory provident fund ("MPF") scheme was 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$167,000 for the six months ended 30 September 2005 arising from employees leaving the scheme respectively were utilized to offset contributions during the same period. The MPF scheme cost charged to the consolidated profit and loss account of the remaining Group 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% to 13% of basic salaries.

The Group also contributes to employee retirement schemes established by municipal governments in respect of subsidiaries incorporated in the PRC. 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 of the Group in the year to which the contributions relate.

On 9 March 2005, a share option scheme for the executive directors and employees of the Company and its subsidiary companies was approved and adopted by shareholders pursuant to which the Directors were authorised to grant options to executive directors and employees of the Company or its subsidiary companies 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 not expire later than 10 years from the commencement date of the share option. The maximum number of shares in respect of which options may be granted under the aforesaid share option scheme may not exceed 10% of the total shares of the Company in issue. 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.

As at 30 September 2005, the remaining Group had 2,479 employees. The table below sets out the details of remuneration of employees of the remaining Group for the six months ended 30 September 2005:

	Six months ended 30 September 2005 *HK$'000*
Salaries and allowances	127,682
Pension contribution less forfeiture utlilised	8,205
Social security costs	1,514
Other allowances	535
	137,936

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is an illustrative and pro forma consolidated balance sheet, consolidated profit and loss account and consolidated cash flow statement of the Group which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Disposal and special dividend as if it had taken place on 30 September 2005 for the pro forma consolidated balance sheet and 1 April 2005 for the pro forma consolidated profit and loss account and consolidated cash flow statement. This pro forma financial information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position and financial results of the Group had the Disposal and special dividend been completed as at 30 September 2005 and 1 April 2005 respectively or at any future date.

I. Unaudited Pro Forma Consolidated Balance Sheet

	As at 30 September 2005				
	Before	**Pro forma adjustments**			**After**
	Disposal	*Note (a)*	*Note (b)*	*Note (c)*	**Disposal**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
Non-current assets					
Property, plant and equipment	158,471	(33,320)			125,151
Investment properties	758,970	(728,000)			30,970
Prepayment of lease premium	165,431	(17,849)			147,582
Intangible assets	21,264				21,264
Deferred tax assets	33,273				33,273
Available-for-sale financial assets	11,500				11,500
	1,148,909				369,740
Current assets					
Stocks	517,080				517,080
Debtors and prepayments	421,036				421,036
Financial assets at fair value through profit or loss	48,078				48,078
Bank balances and cash	80,480		486,100	(475,700)	90,880
	1,066,674				1,077,074
Total assets	2,215,583				1,446,814

	Before Disposal	Pro forma adjustments Note (a)	Note (b)	Note (c)	After Disposal
	As at 30 September 2005				
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
EQUITY					
Capital and reserves attributable to the Company's equity holders:					
Share capital	97,111				97,111
Other reserves	903,376	54,590	34,831	(475,700)	517,097
Declared interim/proposed special dividend	9,513				9,513
Shareholders' funds	1,010,000				623,721
Minority interest	6,288				6,288
Total equity	1,016,288				630,009
LIABILITIES					
Non-current liabilities					
Deferred tax liabilities	57,027	(54,590)			2,437
Other non-current liabilities	400,675	(315,200)			85,475
	457,702				87,912
Current liabilities					
Creditors and accruals	399,117	(7,900)			391,217
Loans from the ultimate holding company	38,500				38,500
Loan from a shareholder	36,500				36,500
Loans from a director	8,288				8,288
Taxation payable	15,980				15,980
Current portion of other non-current liabilities	15,292	(4,800)			10,492
Bank overdrafts and short term loans					
Secured	129,389				129,389
Unsecured	98,527				98,527
	741,593				728,893
Total liabilities	1,199,295				816,805
Total equity and liabilities	2,215,583				1,446,814
Net current assets	325,081				348,181
Total assets less current liabilities	1,473,990				717,921

Notes:

(a) The adjustments reflect the exclusion of Stelux (BVI) after the Reorganisation from the consolidation upon the Disposal by the Group, which has taken into account the following:

1) The reduction of deferred tax liabilities in relation to the holding of the Property;

2) The reduction of outstanding mortgage loans upon the Disposal;

3) The transfer of rental deposits upon Completion.

(b) The adjustments reflect:

1) The receipt of HK$820,000,000 Consideration, adjusted by the rental deposits transferred upon Completion and net of estimated expenses directly attributable to the Disposal.

2) The repayment of outstanding mortgage loans upon the Disposal.

3) The gain on Disposal based on the consolidated net asset value of Stelux (BVI) after the Reorganisation.

(c) The adjustment reflects the payment of the Special Dividend upon the Completion of the Disposal.

(d) Except for the Reorganisation, no adjustment has been made to reflect any trading result or other transaction of the Group and Stelux (BVI) entered into subsequent to 30 September 2005.

II. Unaudited Pro Forma Consolidated Profit and Loss Account

	Six months ended 30 September 2005			
	Before Disposal	**Pro forma adjustments**		**After Disposal**
		Note (a)	*Note (b)*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenues	701,325	(13,228)		688,097
Cost of sales	(249,278)			(249,278)
Gross profit	452,047			438,819
Fair value gains of investment properties	36,660	(36,400)		260
Compensation received from arbitration	38,489	(38,489)		–
Other gains	18,008	(4,406)	70,615	84,217
Selling expenses	(335,006)			(335,006)
General and administrative expenses	(90,484)			(90,484)
Other operating expenses	(25,730)	9,291		(16,439)
Operating profit before financing	93,984			81,367
Finance costs	(12,972)	8,188		(4,784)
Profit before taxation	81,012			76,583
Taxation	(12,138)	7,414	47,176	42,452
Profit for the period	68,874			119,035

Notes:

(a) The adjustment reflects the exclusion of Stelux (BVI) after the Reorganisation from consolidation upon the Disposal by the Group and this includes the deferred tax charge in relation to the holding of the Property of HK$7,414,000 for the six months ended 30 September 2005.

(b) The adjustments reflect:

1) The gain on disposal, being consideration of HK$820,000,000 net of estimated expenses directly attributable to the Disposal of HK$6,000,000 and less the consolidated net asset value of Stelux (BVI) after the Reorganisation of HK$743,385,000.

2) The reduction of deferred tax liabilities in relation to the holding of the Property as at 31 March 2005.

(c) The Company has been using a portion of the office premises and some carparking spaces at the Property since 1998. Upon completion of the Agreement, the Company intends to rent the said office premises and carparking spaces from SHL for an annual aggregate sum of HK$4,103,000 excluding management fee, rates and government rent. Upon completion of the Agreement, SPAL, a wholly-owned subsidiary of the Company will enter into a management and property agency liaison services agreement with SHL, pursuant to which SPAL will agree to provide, inter alia, contract administration, property agency liaison and tenancy management services with respect to Stelux House for an annual consideration of at least HK$2,040,000.

(d) Except for the Reorganisation, no adjustment has been made to reflect any trading result or other transaction of the Group and Stelux (BVI) entered into subsequent to 30 September 2005.

III. Unaudited Pro Forma Consolidated Cash Flow Statement

	As at 30 September 2005				
	Before Disposal	**Pro forma adjustments** *Note (a)*	*Note (b)*	*Note (c)*	**After Disposal**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cash flows from operating activities					
Cash generated from operations	(27,237)	(47,793)	(7,900)		(82,930)
Interest paid	(11,270)	8,188			(3,082)
Hong Kong profits tax paid	(107)				(107)
Overseas paid	(5,200)				(5,200)
Net cash used in operating activities	(43,814)				(91,319)
Net proceeds from disposal of Stelux House	–		814,000		814,000
Purchase of property, plant and equipment	(27,022)				(27,022)
Acquisition of subsidiaries	(29,103)				(29,103)
Prepayment of lease premium	(10,415)				(10,415)
Interest received	1,004				1,004
Dividend received	4				4
Net cash (used in)/from investing activities	(65,532)				748,468

	Before Disposal	Pro forma adjustments Note (a)	Note (b)	Note (c)	After Disposal
	Six months ended 30 September 2005				
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cash flows from financing activities					
New loans from a shareholder	36,500				36,500
New loans from the ultimate holding company	38,500				38,500
Drawdown of bank loans	301,770	(60,000)			241,770
Repayment of bank loans	(214,169)	92,563	(320,000)		(441,606)
Net decrease in loans from a related company	(11,580)				(11,580)
Repayment of loan from a director	(360)				(360)
Capital element of finance lease payments	(190)				(190)
Dividend paid	(23,784)			(475,700)	(499,484)
Net cash from/(used in) financing activities	126,687				(636,450)
Net increase in cash and cash equivalents	17,341				20,699
Cash and cash equivalents at beginning of year	50,209				50,209
Cash and cash equivalents at end of year	67,550				70,908
Analysis of balances of cash and cash equivalents:					
Bank balances and cash	80,480	(7,042)	486,100	(475,700)	83,838
Bank overdrafts	(12,930)				(12,930)
	67,550				70,908

Notes:

(a) The adjustment reflects the exclusion of Stelux (BVI) after the Reorganisation from consolidation upon the Disposal by the Group.

(b) The adjustments reflect:

(1) The Consideration received less estimated expenses directly attributable to the Disposal and the transfer of rental deposits upon the Disposal.

(2) The repayment of outstanding mortgage loans.

(c) It reflects payment of the Special Dividend upon the Completion of the Disposal.

(d) Except for the Reorganisation, no adjustment has been made to reflect any trading result or other transaction of the Group and Stelux (BVI) entered into subsequent to 30 September 2005.

B. LETTER ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the Company's auditors, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular. As there is no specific guidance for reporting on pro forma financial information issued by the Hong Kong Institute of Certified Public Accountants, this report is prepared with reference to the principles set out in the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom.

PRICEWATERHOUSECOOPERS

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www.pwchk.com

The Directors
Stelux Holdings International Limited

24 February 2006

Dear Sirs,

We report on the unaudited pro forma financial information of Stelux Holdings International Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 105 to 109 under the headings of "Unaudited Pro Forma Financial Information of the Remaining Group" in Appendix III of the Company's circular dated 24 February 2006 in connection with the proposed disposal of Stelux House through the disposal of the entire issued share capital of Stelux Holdings International (BVI) Limited (the "Disposal") and special dividend (the "Circular"). The unaudited pro forma financial information has been prepared by the Directors of the Company, for illustrative purposes only, to provide information on how the Disposal and special dividend might have affected the relevant financial information of the Group.

Responsibilities of Directors and Reporting Accountants

It is the responsibility solely of the Directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") and with reference to the principles set out in Technical Release 18/98 "Pro Forma Financial Information – Guidance for the preparers under the Listing Rules" issued by the Institute of Chartered Accountants in England and Wales.

It is our responsibility to form an opinion, as required by Rule 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given to us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work with reference to the principles set out in the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the Directors of the Company.

Our work does not consistute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the unaudited pro forma financial information.

The unaudited pro forma financial information has been prepared on the bases set out on pages 105 to 109 for illustrative purpose only and, because of its hypothetical nature, it may not be indicative of:

– the financial position of the Group as at 30 September 2005 or any future date, or

– the results of the Group for the six months ended 30 September 2005 or any future periods.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the Directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The following is the text of the valuation report received from Jones Lang LaSalle, independent property valuers, prepared for the purpose of inclusion in this Circular, in connection with its valuation of the Property as at 20 December 2005 held by and to be disposed of by the Group.

Jones Lang LaSalle Limited
Valuation Advisory Services
28/F One Pacific Place 88 Queensway Hong Kong
tel +852 2846 5000 fax +852 2968 0078
Company Licence No.: C-003464

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牌照號碼 C-003464

ISO 9001: 2000
Certificate No: CC568

24 February 2006

The Directors of
Stelux Holdings International Limited
698 Prince Edward Road East
San Po Kong
Kowloon

Dear Sirs,

Re: Valuation for Stelux House, 698 Prince Edward Road East, San Po Kong, Kowloon, Hong Kong

1.1 Instructions

We refer to the instructions received from Stelux Holdings International Limited ("the Company") for us to carry out market valuation of the property interest at **Stelux House, 698 Prince Edward Road East, San Po Kong, Kowloon, Hong Kong (New Kowloon Inland Lot No. 4790)** ("the Property") in its existing state for public disclosure purposes.

We confirm that we have carried out an inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market rent of the unencumbered leasehold property interests as at 20 December 2005 (the "date of valuation").

1.2 Basis of Valuation

Unless otherwise stated, our valuation has been prepared in accordance with the "HKIS Valuation Standards on Properties" published by The Hong Kong Institute of Surveyors ("HKIS") and the requirements contained in Chapter 5 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. Where the Valuation Standards are silent on subjects requiring guidance, we would refer to "The RICS Appraisal and Valuation Standards" published by the Royal Institution of Chartered Surveyors ("RICS") and the "International Valuation Standards" published by the International Valuation Standards Committee ("IVSC") subject to variation to meet local established law, custom, practice and market conditions.

Our valuation of the property interest is made on the basis of the '**Market Value**' adopted by the HKIS, set out as follows:

"Market Value is the estimated amount for which a Property should exchange on the Date of Valuation between a willing buyer and a willing seller in an arms-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

Our valuation services have been executed in accordance with our Quality Assurance System, accredited by HKQAA via ISO 9001:2000 and our report prepared with reference to the assumptions, definitions and limiting conditions as set out in our General Principles of Valuation.

1.3 Valuation Assumptions

Our valuation has been made on the assumption that the owner sells the property interest on the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which could serve to affect its value.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interest nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interest is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

As instructed, we have valued the Property as a single property interest and have ignored the potential effect of selling the Property on strata-titled basis.

1.4 Source of Information

We have relied to a considerable extent on the information provided by the Company, including a tenancy schedule as at 1 January 2006, a set of layout plans, a typical tenancy agreement for spaces within the Property, copies of signed offer letters and schedule of tenancy agreements for new tenancies. We have also accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, floor plans, floor areas and all other relevant matters. Dimensions, measurements and areas included in the report are based on information contained in copies of documents provided to us and are therefore only approximations. No on site measurements have been taken.

Our valuation is totally dependent on the adequacy and accuracy of the information supplied and/or the assumptions made. Should these prove to be incorrect or inadequate, the accuracy of our valuation may be affected.

1.5 Title Investigation

We have not been provided with copies of some of the title documents relating to the property interest but we have caused searches to be made at the Land Registry. However, we have not examined the original documents to verify ownership or to ascertain the existence of any lease amendments which may not appear on the copies handed to us. All documents and leases have been used for reference only and all dimensions, measurements and areas are approximate.

1.6 Site Investigation

We have not carried out site measurements to verify the correctness of the site areas of the Property and have assumed that the site areas shown on the documents and official site plans handed to us are correct.

We were not instructed to carry out any investigations on site in order to determine the suitability of ground conditions and services, nor did we undertake archaeological, ecological or environmental surveys. Our valuation is on the basis that these aspects are satisfactory. Should it be established subsequently that contamination, subsidence or other defects exist at the Property or on any neighbouring land, or that the Property have been or are being put to any contaminative use, we reserve the right to adjust the value reported herein.

1.7 Property Inspection

We had inspected the exterior, and where possible, the interior of representative units and common areas of the Property on 12 December 2005.

We have not conducted formal site and structural surveys and, as such, we cannot report that the Property is free from rot, infestation or any other structural defects. We have not carried out building surveys, nor have we inspected those parts of the Property which are covered, unexposed or inaccessible and such parts have been assumed to be in good repair and condition. We cannot express an opinion about or advise upon the condition of uninspected parts and this report should not be taken as making any implied representation or statement about such parts. No tests have been carried out to any of the services within the Property.

We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous material has been used in the construction of the Property, or has since been incorporated, and we are therefore unable to report that the Property are free from risk in this respect. For the purpose of this valuation we have assumed that such investigation would not disclose the presence of any such material to any significant extent.

1.8 Plant and Machinery

Our valuation normally includes all plant and machinery that form part of the building services installations. However, process plant, machinery and equipment which may have been installed wholly in connection with the occupiers' industrial or commercial processes, together with furniture and furnishings, tenants' fixtures and fittings are excluded in our valuations.

1.9 Report

Neither the whole nor any part of this valuation report comprising our covering letter, valuation certificate and appendices, nor any reference thereto may be included in any document, circular or statement without our written approval of the form and context in which it will appear.

Finally and in accordance with our standard practice, we must state that this valuation report is for the use only of **Stelux Holdings International Limited** for the stated purpose. No responsibility is accepted to any third party for the whole or any part of its contents.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Limited
Dorothy Chow
BSc(Hons), MSc, MHKIS, MRICS, RPS(GP)
Associate Director
Licence No.: E-182969

Note:

Ms. Dorothy Chow is a Chartered Surveyor and a Registered Professional Surveyor. She has over 9 years of valuation and advisory experience in Hong Kong.

VALUATION CERTIFICATE

Property	Description, age and tenure	Particulars of occupancy	Market Value as at 20 December 2005
Stelux House, 698 Prince Edward Road East, San Po Kong, Kowloon, Hong Kong New Kowloon Inland Lot No. 4790	The property is located on the north western side of Prince Edward Road East close to its junction with King Tai Street in the San Po Kong District. The registered site area of the property is approximately 22,580 sq.ft. (2,097.75 sq.m.). Stelux House comprises a 26-storey office building (plus 3 basement levels) with retail shops on ground floor and mezzanine floor and loading and unloading facilities and 114 car parking spaces on basement 1 to 3. The subject building was built in 1998. The subject building is served by 7 passenger lifts, 1 service lift and 1 hydraulic passenger lift (for the basement floors to G/F). According to the tenancy schedule provided to us, the total gross floor area of the subject building is approximately 328,809 sq.ft (30,547.1 sq.m.). The property is held under Government Lease for a term of 99 years commencing 1 July 1898 which was extended for a term expiring on 30 June 2047. The current government rent for the property is 3% of its prevailing rateable value per annum.	The occupancy of the property was about 90.7% as at the date of valuation. The tenanted portion and owner-occupied portion (i.e. Units 502, 503, 505 and 506 on 5/F, 27th Floor and Portion of 28th Floor) occupy about 81.4% and 9.3% of the total gross floor area of the property. As at 31 December 2005, the total monthly rent receivable from the tenanted office and commercial spaces, together with six telecommunication antennae on the roof top, was about HK$2,308,000, exclusive of rates, government rent and management fees. The monthly fee of the single car parking space was about HK$3,150 per space and that of the double car parking space was about HK$4,700 per space. The existing tenancies are mostly of 2 to 3 years term with option to renew for further 1 to 3 years upon expiry.	HK$820,000,000 (HONG KONG DOLLARS EIGHT HUNDRED AND TWENTY MILLION)

Notes:

(1) The registered owner of the property is Stelux Holdings Limited.

(2) According to the recent Land Registry Record, we noted that the following encumbrances were registered against the property:

- Mortgage in favour of Hang Seng Bank Limited to secure all moneys in respect of general banking facilities dated 9 May 2005 vide Memorial No. 05052402880705.

- Confirmation Deed in favour of Hang Seng Bank Limited dated 21 September 2005 vide Memorial No. 05093001080179.

(3) The property was zoned under the Draft Tze Wan Shan, Diamond Hill & San Po Kong Outline Zoning Plan No. S/K11/20 exhibited on 9 December 2005 for “Other Specified Uses” annotated “Business” purposes.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular with regard to the Company and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts with regard to the Company, the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors and chief executives

As at the Latest Practicable Date, the interests and short positions of the Directors and the Company's chief executives in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered in the register required to be kept under section 352 of the SFO were as follows:

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

(i) The Company – Ordinary Shares

	Number of Shares				
Name of Director	**Personal Interests**	**Family Interests**	**Corporate Interests**	**Total**	**Approximate percentage of issued share capital as at the Latest Practicable Date**
Mr. Wong Chong Po	3,600,000	–	–	3,600,000	0.38
Mr. Joseph C. C. Wong	38,080,011	10,000	–	38,090,011	4.00
Mr. Chu Kai Wah, Anthony	2,000,000	–	–	2,000,000	0.21
Mr. Sakorn Kanjanapas	391,056	–	–	391,056	0.04
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

(ii) Subsidiary Companies

	Number of Shares Personal Interests	Family Interests	Corporate Interests	Total	Approximate percentage of issued share capital as at the Latest Practicable Date
(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

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, as at the Latest Practicable Date, none of the Directors or the Company's chief executives, had, under Divisions 7 and 8 of Part XV of the SFO, nor were they taken to or deemed to have under such provisions of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) or any interests which are required to be entered into the register kept by the Company pursuant to section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

(b) Interests of shareholders discloseable pursuant to the SFO

Save as disclosed below, the Directors are not aware of any other person (other than a Director or chief executive of the Company or his/her respective associate(s)) who, as at the Latest Practicable Date, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Number of Shares	Percentage of shareholding	*Note*
Yee Hing Company Limited	415,031,771	43.63	(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 as beneficial owner. The estate of Mr Wong Chue Meng has a controlling interest in Yee Hing Company Limited.

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

(c) These shares are held by Thong Sia Company Limited as beneficial owner. The estate of Mr. Wong Chue Meng holds 38% of the issued shares of Thong Sia Company Limited.

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

(c) Substantial shareholding in other members of the Group

The Directors are not aware of any other person (other than a Director or chief executive of the Company or his/her respective associate(s)) who, as at the Latest Practicable Date, was directly or indirectly interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

(d) Other Directors' Interests

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have since 31 March 2005 (being the date to which the latest published audited consolidated accounts of the Group were made up) been acquired or disposed of by or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by or leased to the Company or any of its subsidiaries.

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in a business apart from the Company's business which competes or is likely to compete, either directly or indirectly, with the Company's business, or which would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder.

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries, which was subsisting and was significant in relation to the business of the Group.

3. MATERIAL CHANGES

Other than the matters set out in this circular and as at the Latest Practicable Date the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2005, the date to which the latest published audited financial statements of the Company were made up.

4. EXPERT

(a) The following are the qualifications of the experts who have given their opinions or advices which are contained in this circular:

Name	**Qualifications**
Jones Lang LaSalle	independent property valuers
Access Capital	a licensed corporation to carry out Types 1, 4, 6 and 9 regulated activities under the SFO
PricewaterhouseCoopers	Certified Public Accountants

(b) As at the Latest Practicable Date, Jones Lang LaSalle, Access Capital and PricewaterhouseCoopers do not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(c) As at the Latest Practicable Date, Jones Lang LaSalle, Access Capital and PricewaterhouseCoopers have given and have not withdrawn its written consent to the issue of this circular with the inclusion of its letters, reports and references to its name in the form and context in which they are included.

(d) As at the Latest Practicable Date, Jones Lang LaSalle, Access Capital and PricewaterhouseCoopers do not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, nor which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2005, the date to which the latest published audited financial statements of the Company were made up.

5. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

6. SERVICE CONTRACTS

There is no existing or proposed service contracts between any of the Directors and the Company or any of its subsidiaries respectively, other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

7. PROCEDURE FOR DEMANDING A POLL AT THE SPECIAL GENERAL MEETING

The Company's Bye-laws 78, 79 and 80 set out the procedure by which shareholders may demand a poll:

a) By-law 78

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:–

(i) by the Chairman of the meeting; or

(ii) by at least three members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

(iii) by any member or members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(iv) by a member or members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Unless a poll be so demanded and not withdrawn, a declaration by the Chairman that a resolution has on a show of hands been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution.

b) By-law 79

If a poll is demanded as aforesaid, it shall (subject as provided in By-law 80) be taken in such manner (including the use of ballot or voting papers or tickets) and at such time and place, not being more than thirty days from the date of the meeting or adjourned meeting at which the poll was demanded, as the Chairman directs. No notice need be given of a poll not taken immediately. The result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The demand for a poll may be withdrawn, with the consent of the Chairman, at any time before the close of the meeting or the taking of the poll, whichever is the earlier.

c) By-law 80

Any poll duly demanded on the election of a Chairman of a meeting or on any question of adjournment shall be taken at the meeting and without adjournment.

8. GENERAL

(a) The secretary of the Company is Ms Caroline Chong Sue Peng, BA (Law) (Hons), admitted as a Barrister in England and Wales, and Hong Kong.

(b) Mr Wong Yuk Woon, CPA, ACIB, has been appointed as the qualified accountant for the purpose of Rule 3.24 of the Listing Rules.

(c) The registered office of the Company is at Canon's Court, 22 Victoria Street, Hamilton, HM12, Bermuda. The principal place of business of the Group in Hong Kong is at 27th Floor, Stelux House, 698 Prince Edward Road East, San Po Kong, Kowloon, Hong Kong. The share registrar of the Company is Butterfield Fund Services (Bermuda) Limited at Rosebank Centre, 11 Bermudiana Road, Pembroke, Bermuda and the branch share registrar and transfer office is Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) The English text of this circular shall prevail over the Chinese text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection on any weekday (Saturdays, Sundays and public holidays excepted) during normal business hours from 9:30 a.m. to 5:30 p.m. up to and including 15 March 2006 at the principal office of the Company at 27th Floor, Stelux House, 698 Prince Edward Road East, San Po Kong, Kowloon, Hong Kong:

(a) the Agreement;

(b) the memorandum of association and bye-laws of the Company;

(c) the letter from the Independent Board Committee, the text of which is set out in the section headed "Letter from the Independent Board Committee" of this Circular;

(d) the letter from Access Capital, the text of which is set out in the section headed "Letter from Access Capital" of this Circular;

(e) the accountants' report, the text of which is set out in Appendix I to this circular;

(f) the letter from PricewaterhouseCoopers on the unaudited pro forma financial information of the Remaining Group, the text of which is set out in Appendix III to this circular;

(g) the pro forma financial information of the remaining Group, the text of which is set out in Appendix III to this circular;

(h) the statement of adjustments to the accountants' report signed by PricewaterhouseCoopers, as set out in Appendix I to this circular;

(i) the property valuation report prepared by Jones Lang LaSalle, the text of which is set out in Appendix IV to this circular;

(j) the written consents referred to in paragraph 4 in this Appendix;

(k) each of the circulars of the Company issued since 1 April 2005, being the circular of the Company dated 29 July 2005 regarding general mandates to repurchase shares and to issue new shares, re-election of directors, and the circular of the Company dated 31 August 2005 regarding the connected and discloseable transactions and continuing connected transactions following the acquisition and changes in existing continuing connected transactions following the acquisition; and

(l) the annual reports of the Company for the two years ended 31 March 2004 and 2005.

STELUX Holdings International Limited

寶光實業(國際)有限公司*

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

(Incorporated in Bermuda with limited liability)

(Stock Code: 84)

NOTICE IS HEREBY GIVEN that the Special General Meeting of the Shareholders will be held at 5th Floor, Stelux House, 698 Prince Edward Road East, San Po Kong, Kowloon, Hong Kong at 11:00 a.m. on 15 March 2006 for the purpose of considering, if thought fit, passing with or without amendments, the following resolution as an ordinary resolution of the Company:–

ORDINARY RESOLUTION

"**THAT**

the Agreement (as defined in the circular to shareholders of the Company dated 24 February 2006 (the "**Circular**") and a copy of which has been produced to this meeting marked "A" and signed by the chairman of this meeting for the purpose of identification) and the transactions contemplated thereunder (including but not limited to the distribution of a special dividend of HK$0.50 per Share) be and are hereby approved, confirmed and ratified."

By Order of the Board
Caroline Chong
Company Secretary

24 February 2006

Notes:

(1) To ascertain the right of shareholders to attend and vote at the meeting, the register of members of the Company will be closed from 10 March 2006 to 15 March 2006, both days inclusive, during which period no transfers of shares will be registered.

(2) Any shareholder entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a shareholder of the Company. All proxies must be deposited at the Company's Hong Kong registrar and transfer office, Computershare Hong Kong Investor Services Limited, 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time appointed for the holding of the meeting, or adjourned meeting or the taking of the poll, as the case may be.

(3) Completion and delivery of the form of proxy will not preclude you from attending and voting at the meeting if you so wish.

(4) Where there are joint holders of any shares, any one of such joint holders may vote at the meeting, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting personally or by proxy, that one of such holders so present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.

(5) To ascertain the entitlement of the shareholders to the special dividend of HK$0.50 per Share, the register of members of the Company will be closed from 23 March 2006 to 28 March 2006, both days inclusive, during which period no transfers of shares will be registered.

(6) Light refreshments will be available after the meeting.

* *for identification purpose only*

The Directors of the Company as at the date of this circular are as follows:

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 Wong Yuk Woon

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