STELUX Holdings International Limited

Incorporated in Bermuda with limited liability

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INTERIM REPORT 2005/2006

INTERIM REPORT
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2005

The Directors are pleased to report the Group's interim results and accounts for the six months ended 30th September 2005. The Group reported a profit attributable to shareholders of HK$68.8 million for the period under review. The consolidated results of the Group for the six months ended 30th September 2005, the consolidated balance sheet as at 30th September 2005, the condensed consolidated cash flow statement and the consolidated statement of changes in equity of the Group for the six months ended 30th September 2005, all of which are unaudited, along with the relevant explanatory notes, are set out below.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2005

		Unaudited Six months ended 30th September	
		2005	**2004**
	Note	*HK$'000*	*HK$'000*
Turnover	*2*	703,997	672,618
Cost of sales		(249,278)	(231,208)
Gross profit		454,719	441,410
Other revenues		7,336	7,301
Selling expenses		(335,006)	(291,672)
General and administrative expenses		(90,484)	(79,896)
Other operating expenses		(25,730)	(24,895)
Other operating income		83,149	–
Operating profit before financing	*3*	93,984	52,248
Finance costs		(12,972)	(10,756)
Profit before taxation		81,012	41,492
Taxation charge	*4*	(12,138)	(2,026)
Profit for the period		68,874	39,466
Attributable to:			
Equity holders of the Company		68,874	39,466
Minority interests		–	–
		68,874	39,466
Dividend	*5*	9,513	9,513
Earnings per share	*6*	*HK cents*	*HK cents*
– basic		7.24	4.18
– diluted		N/A	4.17

CONSOLIDATED BALANCE SHEET
AT 30TH SEPTEMBER 2005 AND 31ST MARCH 2005

	Note	Unaudited 30th September 2005 HK$'000	Restated 31st March 2005 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	*7*	158,471	154,670
Investment properties	*7*	758,970	712,350
Prepayment of lease premium	*7*	165,431	162,830
Intangible assets	*7*	21,264	17,052
Deferred tax assets		33,273	32,875
Investment securities		–	4,299
Available-for-sale financial assets		11,500	–
		1,148,909	1,084,076
Current assets			
Stocks		517,080	388,849
Debtors and prepayments	*8*	421,036	292,830
Marketable securities		–	83
Financial assets at fair value through profit or loss		48,078	–
Bank balances and cash		80,480	64,779
		1,066,674	746,541
Total assets		2,215,583	1,830,617
EQUITY			
Capital and reserves attributable to the Company's equity holders:			
Share capital	*10*	95,134	95,134
Reserves		905,353	844,529
Declared interim/proposed final dividend		9,513	23,784
Shareholders' funds		1,010,000	963,447
Minority interests		6,288	2,494
Total equity		1,016,288	965,941
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		57,027	47,985
Other non-current liabilities	*11*	400,675	279,719
		457,702	327,704

CONSOLIDATED BALANCE SHEET *(Continued)*
AT 30TH SEPTEMBER 2005 AND 31ST MARCH 2005

	Note	Unaudited 30th September 2005 HK$'000	Restated 31st March 2005 HK$'000
Current liabilities			
Creditors and accruals	9	399,117	284,436
Loans from the ultimate holding company		38,500	–
Loan from a shareholder		36,500	–
Loans from a director		8,288	8,648
Taxation payable		15,980	15,770
Current portion of other non-current liabilities	11	15,292	23,465
Bank overdrafts and short term loans			
Secured		129,389	141,058
Unsecured		98,527	63,595
		741,593	536,972
Total liabilities		1,199,295	864,676
Total equity and liabilities		2,215,583	1,830,617
Net current assets		325,081	209,569
Total assets less current liabilities		1,473,990	1,293,645

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2005

	Unaudited Six months ended 30th September 2005 *HK$'000*	2004 *HK$'000*
Net cash from operating activities	1,524	79,840
Net cash used in investing activities	(105,533)	(40,900)
Net cash from/(used in) financing activities	126,687	(38,853)
Net increase in cash and cash equivalents	22,678	87
Cash and cash equivalents at 1st April	50,209	32,833
Effect of foreign exchange rate changes	(5,337)	(3,927)
Cash and cash equivalents at 30th September	67,550	28,993
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash – unrestricted	80,480	48,654
Bank overdrafts	(12,930)	(19,661)
	67,550	28,993

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2005

	Unaudited						
	Share capital *HK$'000*	**Contributed surplus** *HK$'000*	**Share premium** *HK$'000*	**Investment revaluation reserve** *HK$'000*	**(Accumulated losses)/ retained profits** *HK$'000*	**Minority interests** *HK$'000*	**Total** *HK$'000*
At 1st April 2004							
As previously reported	94,334	2,848,462	793	–	(2,123,230)	1,606	821,965
Adjustment on adoption of HKAS-Int 21 *(note)*	–	–	–	–	2,110	–	2,110
As restated	94,334	2,848,462	793	–	(2,121,120)	1,606	824,075
Exchange differences	–	–	–	–	(7,381)	(81)	(7,462)
Profit for the period	–	–	–	–	39,466	–	39,466
Transfer of contributed surplus	–	(2,848,462)	–	–	2,848,462	–	–
2004 final dividends paid	–	–	–	–	(18,867)	–	(18,867)
Issue of shares upon exercise of share options	600	–	888	–	–	–	1,488
At 30th September 2004	94,934	–	1,681	–	740,560	1,525	838,700
At 1st April 2005							
As previously reported	95,134	–	1,977	–	866,336	2,494	965,941
Opening adjustment on the adoption of HKAS 39	–	–	–	7,201	–	–	7,201
As restated	95,134	–	1,977	7,201	866,336	2,494	973,142
Minority interest – acquisition of subsidiaries *(note 14)*	–	–	–	–	–	3,873	3,873
Exchange differences	–	–	–	–	(5,738)	(79)	(5,817)
Profit for the period	–	–	–	–	68,874	–	68,874
2004/2005 final dividend paid	–	–	–	–	(23,784)	–	(23,784)
At 30th September 2005	95,134	–	1,977	7,201	905,688	6,288	1,016,288

Note: As disclosed in note 2(a) to the 2005 Annual Accounts, the Group has early adopted Hong Kong Accounting Standard No. 40 ("HKAS 40") "Investment Property" and Hong Kong Accounting Standard Interpretation No. 21 "Income Taxes-Recovery of Revalued Non-Depreciable Assets" ("HKAS-INT 21") in the accounts for the year ended 31st March 2005. Accordingly, deferred tax liabilities as at 1st April 2004 was decreased by HK$2,110,000 and reserves as at 1st April 2004 were increased by the same amount.

NOTES TO INTERIM ACCOUNTS

1. Basis of preparation and accounting policies

(a) Basis of preparation

These unaudited condensed consolidated interim accounts have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31st March 2005 except that the Group has changed some of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") (collectively the "new HKFRSs") which are effective for accounting periods commencing on or after 1st January 2005.

The condensed consolidated interim accounts should be read in conjunction with the 2005 annual accounts.

(b) Changes in accounting policies

In the six months ended 30th September 2005, the Group adopted the new HKFRSs below which are relevant to its operations. The prior comparatives have been amended in accordance with the relevant requirements and current period classification.

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 5	Non-current Asset held for Sale and Discontinued Operations

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

(i) HKAS 1

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

1. **Basis of preparation and accounting policies** *(Continued)*

(b) Changes in accounting policies (Continued)

(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 32 & 39

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Investment securities have been re-designated as available-for-sale financial assets and are stated at fair values. Changes in their fair values are accounted for as movements in reserve. The difference between the fair value of available-for-sale financial assets as at 1st April 2005 and the carrying amounts of the investment securities as at 31st March 2005 was credited to the opening investment revaluation reserve as at 1st 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.

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

HKAS 39 does not permit the recognition, derecognition or measurement of financial assets and liabilities in accordance with this standard on a retrospective basis.

(iv) HKAS 38

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

(v) The following is a summary of effect of adopting the new HKFRSs on the interim accounts

(a) Consolidated profit and loss account for the six months ended 30th 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)
	HK cents	*HK cents*	*HK cents*	*HK cents*
Earnings per share	–	–	0.12	0.12

There is no material impact of adopting the new HKFRSs on the consolidated profit and loss account for the six months ended 30th September 2004.

1. **Basis of preparation and accounting policies** *(Continued)*

(b) Changes in accounting policies (Continued)

(v) *(Continued)*

(b) Consolidated balance sheet

As at 30th September 2005

	Increase/(decrease)			
	HKAS 17	**HKAS 32 and 39**	**HKAS 38**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Fixed assets	(1,082,872)	–	–	(1,082,872)
Property, plant and equipment	158,471	–	–	158,471
Investment properties	758,970	–	–	758,970
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
Bank overdrafts and short term loans, secured	–	(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

As at 31st March 2005

	Increase/(decrease)			
	HKAS 17	**HKAS 32 and 39**	**HKAS 38**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Fixed assets	(1,029,850)	–	–	(1,029,850)
Property, plant and equipment	154,670	–	–	154,670
Investment properties	712,350	–	–	712,350
Prepayment for lease premium	162,830	–	–	162,830
Net assets	–	–	–	–

2. Segment information

Primary reporting format – business segments

	Unaudited Six months ended 30th September 2005						
	Retail and trading						
	Watch	Optical	(Note) Hipo.fant	Property	Investment	Eliminations	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	415,323	232,053	40,979	21,012	70	(5,440)	703,997
Segment results	9,038	17,270	(7,811)	87,333	8,069		113,899
Net corporate expenses							(19,915)
Operating profit before financing							93,984
Finance costs							(12,972)
Profit before taxation							81,012
Taxation charge							(12,138)
Profit for the period							68,874

Note: The Board has resolved on 14th July 2005 to close the Hipo.fant business during the current financial year no later than 31st March 2006.

	Unaudited Six months ended 30th September 2004						
	Retail and trading						
	Watch	Optical	Hipo.fant	Property	Investment	Eliminations	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	437,112	184,295	36,373	20,154	21	(5,337)	672,618
Segment results	52,014	12,823	(5,252)	8,878	21		68,484
Net corporate expenses							(16,236)
Operating profit before financing							52,248
Finance costs							(10,756)
Profit before taxation							41,492
Taxation charge							(2,026)
Profit for the period							39,466

2. **Segment information** *(Continued)*

Secondary reporting format – geographical segments

	Six months ended 30th September – Unaudited			
	Turnover		Segment Results	
				As restated
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	390,080	362,635	100,667	28,124
South East and Far East Asia	220,975	186,756	13,553	20,281
Europe	63,455	91,543	4,497	14,528
North America	5,315	13,967	1,827	6,201
PRC mainland and others	24,172	17,717	(6,645)	(650)
	703,997	672,618	113,899	68,484

Note: Certain comparative figures have been adjusted to conform with the current period's presentation.

3. **Operating profit before financing**

Operating profit before financing is stated after crediting and charging:

	Unaudited Six months ended 30th September	
	2005	**2004**
	HK$'000	*HK$'000*
Crediting		
Compensation received on arbitration *(note)*	38,489	–
Fair value gain on financial assets at fair value through profit or loss	8,000	–
Surplus on revaluation of investment properties	36,660	–
Write back of provision for stock obsolescence	9,666	–
Charging		
Depreciation		
Owned property, plant and equipment	23,128	21,267
Leased property, plant and equipment	220	268
Amortisation of prepayment of lease premium	4,445	4,205
Amortisation of trademarks	–	1,136
Loss on disposal of property, plant and equipment	389	66
Provision for stock obsolescence and stocks written off	3,944	1,178
Provision for doubtful debts and bad debts written off	1,090	406

Note: As disclosed in note 6 to the 2004 Annual Accounts, the Group was entitled to counter-claim liquidated damages and other costs or losses from the contractor for Stelux House in 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, a sum of HK$38,489,000 was recognised during the period.

4. Taxation charge

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the period less relief for available tax losses. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

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

	Unaudited Six months ended 30th September	
	2005	**2004**
	HK$'000	*HK$'000*
Current taxation		
Overseas profits tax	4,009	1,324
Under provision in respect of prior years	195	702
	4,204	2,026
Deferred taxation	7,934	–
Taxation charge	12,138	2,026

5. Dividend

	Unaudited Six months ended 30th September	
	2005	**2004**
	HK$'000	*HK$'000*
Interim, declared, of HK$0.01 (2004: HK$0.01) per ordinary share	9,513	9,513

At a meeting held on 20th December 2005, the Directors declared an interim dividend of HK$0.01 per ordinary share. This declared dividend is not reflected as a dividend payable in the interim accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st March 2006.

6. Earnings per share

Basic

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

	Unaudited Six months ended 30th September	
	2005	**2004**
	HK$'000	*HK$'000*
Group's profit attributable to equity holders	68,874	39,466
Weighted average number of ordinary shares in issue (thousands)	951,340	943,438
Basic earnings per share (HK cents per share)	7.24	4.18

Diluted

The diluted earnings per share for the six months ended 30th September 2005 was not presented as there are no outstanding share options during the period.

The calculation of diluted earnings per share for the six months ended 30th September 2004 was based on the Group's profit attributable to equity holders of HK$39,466,000 and 946,580,231 shares which is the weighted average number of shares in issue during the period plus the weighted average number of 3,141,847 shares deemed to be issued at no consideration if all outstanding options had been exercised.

	Unaudited Six months ended 30th September	
	2005	**2004**
	HK cents	*HK cents*
Diluted earnings per share	N/A	4.17

7. Capital expenditure

	Goodwill HK$'000	Trademarks and licences HK$'000	Total intangible assets HK$'000	Property, plant and equipment HK$'000	Investment properties HK$'000	Prepayment of lease premium HK$'000
Opening net book amount as at 1st April 2005	–	17,052	17,052	154,670	712,350	162,830
Acquisition of subsidiary *(Note 14)*	4,231	–	4,231	3,107	9,960	–
Other additions	–	–	–	27,242	–	10,415
Exchange differences	–	(19)	(19)	(3,068)	–	(3,078)
Disposals	–	–	–	(389)	–	(291)
Depreciation/amortisation changes *(Note 3)*	–	–	–	(23,348)	–	(4,445)
Surplus on revaluation *(Note 3)*	–	–	–	–	36,660	–
Impairment write-back	–	–	–	257	–	–
Closing net book amount as at 30th September 2005	4,231	17,033	21,264	158,471	758,970	165,431
Opening net book amount as at 1st April 2004	–	19,160	19,160	155,211	558,020	166,428
Additions	–	–	–	19,771	–	4,806
Exchange differences	–	103	103	(1,930)	–	(3,053)
Disposals	–	–	–	(292)	–	(842)
Depreciation/amortisation changes *(Note 3)*	–	(1,136)	(1,136)	(21,535)	–	(4,205)
Closing net book amount as at 30th September 2004	–	18,127	18,127	151,225	558,020	163,134
Additions	–	–	–	27,184	–	843
Exchange differences	–	167	167	2,756	–	3,310
Surplus on revaluation	–	–	–	–	154,330	–
Disposals	–	–	–	(65)	–	(21)
Depreciation/amortisation changes	–	(1,242)	(1,242)	(25,268)	–	(4,436)
Impairment	–	–	–	(1,162)	–	–
Closing net book amount as at 31st March 2005	–	17,052	17,052	154,670	712,350	162,830

8. **Debtors and prepayments**

The Group allows an average credit period of 60 days to its trade debtors. Included in debtors and prepayments are trade debtors (net of provision for doubtful debts) with the following aging analysis:

	Unaudited 30th September 2005 *HK$'000*	**Audited 31st March 2005** *HK$'000*
Trade debtors		
60 days or below	68,067	15,360
Over 60 days	45,680	28,916
	113,747	44,276
Deposits, prepayments and other debtors	307,289	248,554
	421,036	292,830

9. **Creditors and accruals**

Included in creditors and accruals are trade creditors with the following aging analysis:

	Unaudited 30th September 2005 *HK$'000*	**Audited 31st March 2005** *HK$'000*
Trade creditors		
60 days or below	150,634	62,306
Over 60 days	77,031	69,622
	227,665	131,928
Other creditors and accruals	171,452	152,508
	399,117	284,436

10. **Share capital**

	Number of shares of HK$0.1 each
Issued and fully paid:	
At 1st April 2004	943,340,023
Issue of shares *(note)*	6,000,000
At 30th September 2004	949,340,023
At 1st April 2005 and 30th September 2005	951,340,023

Note:

All the share options outstanding as at 31st March 2004 were exercised. 6,000,000 ordinary shares were issued in September 2004 and 2,000,000 ordinary shares were issued in October 2004. The exercise price was HK$0.248 per ordinary share.

There were no further share options exercised, granted or lapsed during the period ended 30th September 2005.

11. Other non-current liabilities

		Unaudited 30th September 2005 *HK$'000*	Audited 31st March 2005 *HK$'000*
Bank loans, secured	*(a)*	373,524	290,787
Loan from related companies	*(b)*	41,609	11,580
Obligations under finance leases	*(c)*	834	817
		415,967	303,184
Amount payable within one year included under current liabilities		(15,292)	(23,465)
		400,675	279,719

Note:

(a) The maturity of bank loans are as follows:

	Unaudited 30th September 2005 *HK$'000*	Audited 31st March 2005 *HK$'000*
Within 1 year	14,993	11,617
Between 1 year and 2 years	29,427	14,242
Between 2 years and 5 years	263,049	207,728
Wholly repayable within 5 years	307,469	233,587
Over 5 years	66,055	57,200
	373,524	290,787

(b) The loans from related companies are unsecured, interest-free and not expected to be repaid within the next twelve months from the end of the financial period. The carrying amounts of loans from related companies approximate their fair values.

11. Other non-current liabilities *(Continued)*

Note: (Continued)

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

	Minimum lease payments	
	Unaudited 30th September 2005 *HK$'000*	**Audited 31st March 2005** *HK$'000*
Within 1 year	342	311
Between 1 year and 2 years	251	300
Between 2 years and 5 years	367	342
Over 5 years	–	–
	960	953
Future finance charges on finance leases	(126)	(136)
Present value of finance lease liabilities	834	817

	Present value	
	Unaudited 30th September 2005 *HK$'000*	**Audited 31st March 2005** *HK$'000*
Within 1 year	299	268
Between 1 year and 2 years	219	253
Between 2 years and 5 years	316	296
Over 5 years	–	–
	834	817

12. Commitments

	Unaudited 30th September 2005 *HK$'000*	**Audited 31st March 2005** *HK$'000*
Commitments in respect of expenditure on property, plant and equipment		
Contracted but not provided for	4,126	1,825
Authorised but not contracted for	–	420
	4,126	2,245

13. 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.

The following transactions were carried out with related parties:

(i) Sales of goods and services

		For the six months ended	
		30th September 2005	**30th September 2004**
		HK$'000	*HK$'000*
Rental income received and receivable from related companies	*(a)*	810	881
Interest income receivable from a related company	*(b)*	1,664	2,139

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

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

(b) The related company is Bangkok Land Public Company Limited. The estate of Mr Wong Chue Meng is a substantial shareholder of this company.

(ii) Purchases of goods and services

	For the six months ended	
	30th September 2005	**30th September 2004**
	HK$'000	*HK$'000*
Vision Pro Trading Company Limited	2,746	1,750
International Optical Manufacturing Company Limited	51	111
Dongguan Xiaoshi Optical Manufacturing Company Limited	–	608
Muang Thong Seiko	4,085	3,128
Thong Sia Company (Singapore) Private Limited	4,209	6,699
Thong Sia Sdn Bhd	5,401	5,059
Thong Sia Watch Company Limited	14,521	12,014
Interest expense paid to a related company	30	349
Interest expense paid to a shareholder	50	–
Interest expense paid to directors	8	774
Interest expense paid to the ultimate holding company	88	–
	31,189	30,492

The related companies are companies which are subsidiaries of Yee Hing Company Limited, the ultimate holding company, or controlled by certain substantial shareholders of the Company. Thong Sia Company (Singapore) Private Limited, Thong Sia Watch Company Limited and Thong Sia Sdn Bhd were acquired by the Group on 30th September 2005 and become subsidiaries of the Group since then.

Purchases of goods were conducted at prices and terms no less favourable than those available from third party suppliers.

Except for the above, the terms of these related party transactions have not changed from those disclosed in the Annual Report 2005.

13. Related party transactions *(Continued)*

(iii) Key management compensation

	For the six months ended	
	30th September 2005	**30th September 2004**
	HK$'000	*HK$'000*
Salaries and other short-term employee benefits	11,525	9,308
Other long-term benefits	115	119
	11,640	9,427

(iv) Period/year-end balances arising from rental income, interest income and purchases of goods

	As at	
	30th September 2005	**31st March 2005**
	HK$'000	*HK$'000*
Rent receivable from:		
Yee Hing Company Limited	125	145
Interest receivable from:		
Bangkok Land Public Company Limited	33,928	32,264
Trading balances receivable from/(payable to):		
Muang Thong Seiko	(3,463)	(1,705)
Vision Pro Trading Company Limited	(1,369)	(999)
International Optical Manufacturing Company Limited	(51)	–
Dongguan Xiaoshi Optical Manufacturing Company Limited	663	663
	(4,220)	(2,041)

14. Acquisition of subsidiaries

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

Details of net assets acquired and goodwill are as follows:

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

14. Acquisition of subsidiaries *(Continued)*

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

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

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

There were no significant acquisitions for the year ended 31st March 2005.

15. Event after the balance sheet date

Subsequent to the balance sheet date, an agreement was entered into between the Group with Yee Hing Company Limited ("Yee Hing") on 20th December 2005, pursuant to which the Company has agreed to dispose of Stelux House to Yee Hing for a cash consideration of HK$820,000,000 through the disposal of the entire issued share capital of Stelux Holdings International (BVI) Limited ("Stelux (BVI)") following a group reorganisation of the Company. Following the completion of such group reorganisation of the Company 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.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF GROUP OPERATIONS

The Group is pleased to announce a profit attributable to shareholders of HK$68.8 million for the six months ended 30th September 2005 compared to a profit of HK$39 million during the same period last year. Group turnover increased by 4.7% from HK$673 million to HK$704 million over the corresponding period. The Directors have proposed that an interim dividend of HK$0.01 per share be payable for the six months ended 30th September 2005.

Turnover

Poor consumer sentiment across South East Asian countries brought on by high oil prices and escalating interest rates, coupled with mainland visitors delaying their trips to Hong Kong for the Disney opening in September affected the first half turnover of our watch retail business, City Chain Group ("City Chain"). City Chain did not meet its targeted double-digit growth in turnover. Turnover increased by only 4%. However, market share and gross profit margins were maintained.

Our optical retail business, Optical 88 Group ("Optical 88"), showed strong growth because of gains in market share in Hong Kong and South East Asia. Compared to the first six months of last year, turnover at Optical 88 increased by 26%.

Because of the end of the adidas watch global license, our Watch Manufacturing, Export and Trading Division reported a decrease in turnover of 27% compared to the same time last year.

Profit and Loss

Excluding the revaluation surplus on the Group's investment properties, interests and legal costs recovered from an arbitration, other related expenses and the loss related to the Hipo.fant business, the Group reported an operating profit before tax of HK$20 million compared to a profit of HK$47 million over the same period last year.

The decrease in operating profit was largely because of the performance of City Chain which reported a loss of HK$3 million compared to profits of HK$30 million over the first six months last year. This was due to an increase in operating costs like rent, newly launched advertising on the CYMA brand and setting up expenses to build the PRC market. However, as of the date of this announcement, the benefits reaped from the CYMA brand advertising has been satisfactory and in the longer term, we expect investments made in this regard to be recouped. City Chain PRC turnover has started to pick up since September as a result of the newly launched CYMA advertising campaign.

Despite the disappointing performance of our watch retail business in the first half year, baring unforeseen circumstances, we are still confident of becoming profitable during the full financial year.

Significant growth in profits was reported by Optical 88 - an increase of 42% boosting profits before tax to HK$15.4 million compared to HK$11 million during the corresponding period last year. This was due to increased gross profit margins and improved market share. Organic expansion of Optical 88 in South East Asian and PRC markets is making good progress.

Hipo.fant incurred a loss of HK$8 million during the first half of the financial year. This was not unexpected. Due to accounting policy, the loss was not included as a provision in the accounts for the previous financial year 2004/2005. Based on performance in the third quarter of the financial year, we expect to see further losses of no more than HK$3 million until closure of this business in March 2006.

Business Strategy

During the first six months, the Group has been busy restructuring its businesses to clearly focus on watch and optical products, businesses where we enjoy competitive advantages and good market share.

Firstly, in September 2005, the Group has completed the acquisition of the Thong Sia Group ("Thong Sia"), the sole distributor for Seiko watches, clocks and optical products in Hong Kong, Singapore and Malaysia from our substantial shareholder. The profits and turnover for this business will only be reflected in the second half of the year and performance up to now has been up to expectation.

The inclusion of Thong Sia 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 and City Chain will boost prospects for future growth in both businesses.

The strategy of injecting the 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.

Secondly, the proposed disposal of Stelux House to the Group's substantial shareholder, as announced separately today, is also in line with our business strategy. Through this disposal, we 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.

The Directors have resolved to recommend distribution of a special dividend of HK$0.50 per share to shareholders subject to the disposal being approved at a Special General Meeting by the Group's independent shareholders.

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.

FINANCE

The Group's bank borrowings at balance sheet date was HK$601 million (at 31st March 2005: HK$495 million), out of which, HK$243 million (at 31st March 2005: HK$216 million) were repayable within 12 months. The Group's gearing ratio at balance sheet date was 0.60 (at 31st March 2005: 0.51), which was calculated based on the Group's bank borrowings and shareholders' funds of HK$1,010 million (at 31st March 2005: HK$963 million).

Of the Group's bank borrowings, 4% (at 31st March 2005: 3%) were denominated in foreign currencies. The Group's bank borrowings denominated in Hong Kong Dollars were on a floating rate basis at either bank prime lending rates or short-term inter-bank offer rates.

The Group does not engage in speculative derivative trading.

CAPITAL STRUCTURE OF THE GROUP

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

SHARE OPTION SCHEME

On 9th March 2005, a new share option scheme, replacing the previous scheme, for the employees, officers and directors of the Company and its subsidiary companies (the "Share Option Scheme") was approved and adopted by the shareholders. Details of the terms of the Share Option Scheme were disclosed in the Group's Annual Report 2005. No option was granted during the period. As at 30th September 2005, the total number of ordinary shares available for issue in the remaining life of the Share Option Scheme was 95,134,002.

CHANGES IN THE COMPOSITION OF THE GROUP DURING THE INTERIM PERIOD

During the period, 100.0%, 96.0% and 94.4% equity interests in respect of Thong Sia Company (Singapore) Pte Limited, Thong Sia Watch Company Limited and Thong Sia Sdn Bhd were acquired at a total consideration of HK$55,267,775. Details of the acquisition were disclosed in a circular to shareholders on 31st August 2005. As the acquisition of these three companies was completed on 30th September 2005, the assets and liabilities were therefore incorporated into the Group's Consolidated Balance Sheet as at 30th September 2005. There were no other significant acquisitions of associated companies during the interim period.

SEGMENTAL INFORMATION

An analysis of the Group's segment turnover and segment results by business activities and markets is shown in note 2 to the interim accounts.

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

The Group's remuneration policies are reviewed on a regular basis and remuneration packages are in line with market practices in the relevant countries where the Group operates. As of 30th September 2005, the Group had 2,479 (at 30th September 2004: 2,165) employees.

DETAILS OF THE CHARGES ON GROUP ASSETS

At 30th September 2005, certain of the Group's freehold land and buildings amounting to HK$55,104,000 (at 31st March 2005: HK$56,391,000), investment properties amounting to HK$757,660,000 (at 31st March 2005: HK$711,100,000) and leasehold land amounting to HK$106,677,000 (at 31st March 2005: HK$109,458,000) were pledged to secure banking facilities granted to the Group.

DIRECTORS' INTERESTS

Mr Wong Chong Po, Mr Joseph C. C. Wong, Mr Anthony Chu Kai Wah, Mr Stan Lee Shu Chung and Mr Wong Yuk Woon are eligible to an annual bonus determinable under the terms of an executive bonus scheme with respect to the management of the Group. Provision for the executive bonus in respect of the directors eligible under the Executive Bonus Scheme for the half year ended 30th September 2005 amounted to HK$5,989,000 (2004: HK$3,432,000).

As at 30th September 2005, the interests and short positions of the directors, chief executive and their associates in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") (including interests which they are deemed or taken to have under such provisions of the SFO)) as recorded in the register maintained under Section 352 of the SFO or as otherwise notified to the Company were as follows:

DIRECTORS' INTERESTS *(Continued)*

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

(a) The Company – Ordinary shares

	Number of shares				Approximate percentage of issued share capital as at 30th September 2005
	Personal interests	Family interests	Corporate interests	Total	
Mr Wong Chong Po	3,600,000	–	–	3,600,000	0.38
Mr Joseph C. C. Wong	13,181,211	10,000	–	13,191,211	1.39
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

(b) Subsidiary companies

	Number of shares				Approximate percentage of preference shares as at 30th September 2005
	Personal interests	Family interests	Corporate interests	Total	
(i) City Chain (Thailand) Company Limited – Preference shares [(1)]					
Mr Wong Chong Po	200	–	208,800	209,000	99.52
Mr Joseph C. C. Wong	200	–	208,800	209,000	99.52
Mr Sakorn Kanjanapas	200	–	208,800	209,000	99.52
(ii) Stelux Watch (Thailand) Company Limited – Preference shares [(2)]					
Mr Wong Chong Po	600	–	–	600	16.67
Mr Joseph C. C. Wong	600	–	–	600	16.67
Mr Sakorn Kanjanapas	600	–	–	600	16.67
(iii) Optical 88 (Thailand) Company Limited – Preference shares [(3)]					
Mr Wong Chong Po	5,000	–	225,000	230,000	90.20
Mr Joseph C. C. Wong	5,000	–	225,000	230,000	90.20
Mr Sakorn Kanjanapas	5,000	–	225,000	230,000	90.20

DIRECTORS' INTERESTS *(Continued)*

(b) Subsidiary companies *(Continued)*

Notes:

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

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

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

Save as disclosed above, no directors, chief executive of the Company or their associates had any interest or short position in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code").

SUBSTANTIAL SHAREHOLDERS

As at 30th September 2005, the following companies (other than directors of the Company as disclosed above) had interests in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name	**Number of shares**	**Percentage of shareholding**	*Note*
Yee Hing Company Limited	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 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.

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Save as disclosed in Directors' Interests above, so far as the directors are aware, there are no other parties which were, directly or indirectly, interested in 5% or more of the nominal value of the share capital of the Company as at 30th September 2005 as recorded in the register required to be kept by the Company under Section 336 of the SFO.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 18th January 2006 to 25th January 2006 both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the entitlement to the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Registrar, Computershare Hong Kong Investor Services Limited, 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 17th January 2006. The interim dividend will be paid on 16th February 2006.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

CORPORATE GOVERNANCE

During the six months ended 30th September 2005, the Company has complied with the provisions of the Code on Corporate Governance Practices (the "Code Provisions") as set out in Appendix 14 of the Listing Rules, except for the following deviations:–

Code Provision A.4.2

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

Code Provision B.1.1

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

Code Provision B.1.3

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

CORPORATE GOVERNANCE *(Continued)*

Code Provision E.1.2

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

DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

A detailed announcement of the interim results of the Group for the six months ended 30th September 2005 containing all the information required by paragraph 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange (http://www.hkex.com.hk) in due course.

AUDIT COMMITTEE

Pursuant to the Listing Rules, the Company has set up an audit committee with written terms of reference comprising three independent non-executive directors, namely Mr Kwong Yiu Chung, Dr Lawrence Wu Chi Man (appointed on 28th October 2005) and Mr Wu Chun Sang. The principal responsibilities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls. A meeting of the Audit Committee was held on 15th December 2005 to review the Group's interim results for the six months period ended 30th September 2005 before they were presented to the board of directors for approval.

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

Hong Kong, 20th December 2005

Directors of the Company as at the date hereof:

Executive Directors:
Wong Chong Po *(Chairman)*, Chumphol Kanjanapas (alias Joseph C. C. Wong) *(Vice Chairman and Chief Executive Officer)*, Anthony Chu Kai Wah, Stan Lee Shu Chung and Wong Yuk Woon.

Non-Executive Directors:
Sakorn Kanjanapas, Kwong Yiu Chung *(independent)*, Wu Chun Sang *(independent)* and Lawrence Wu Chi Man *(independent – appointed on 28th October 2005).*