

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

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

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

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

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

RESERVES

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

DONATIONS

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

PROPERTY, PLANT AND EQUIPMENT

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

PRINCIPAL PROPERTIES

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

SHARE CAPITAL AND SHARE OPTIONS

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

PRE-EMPTIVE RIGHTS

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

DIRECTORS AND INTERESTS IN CONTRACTS

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

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

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

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

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

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

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

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

SHARE OPTIONS

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

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

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

DIRECTORS' INTERESTS

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

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

(a) The Company – Ordinary shares

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

(b) Subsidiaries

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

DIRECTORS' INTERESTS (Continued)

(b) Subsidiaries (Continued)

Notes:

- (1) City Chain (Thailand) Company Limited is a wholly-owned subsidiary of the Company. The preference shares held by certain directors represent preference shares issued by City Chain (Thailand) Company Limited which do not carry any voting rights and which are not entitled to any profit sharing but are only entitled to annual fixed dividends. The corporate interests of each of Mr. Wong Chong Po, Mr. Joseph C. C. Wong and Mr. Sakorn Kanjanapas in 208,800 preference shares duplicate with each other.
- (2) Stelux Watch (Thailand) Company Limited is a wholly-owned subsidiary of the Company. The preference shares held by certain directors represent preference shares issued by Stelux Watch (Thailand) Company Limited which do not carry any voting rights and which are not entitled to any profit sharing but are only entitled to annual fixed dividends.
- (3) Optical 88 (Thailand) Company Limited is a wholly-owned subsidiary of the Company. The preference shares held by certain directors represent preference shares issued by Optical 88 (Thailand) Company Limited which do not carry any voting rights and which are not entitled to any profit sharing but are only entitled to annual fixed dividends. The corporate interests of each of Mr. Wong Chong Po, Mr. Joseph C. C. Wong and Mr. Sakorn Kanjanapas in 225,000 preference shares duplicate with each other.

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

SUBSTANTIAL SHAREHOLDERS

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

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

Notes:

- (a) These shares are held by Yee Hing Company Limited ("Yee Hing") as beneficial owner. The estate of Mr. Wong Chue Meng ("Estate") has a controlling interest in Yee Hing.
- (b) These shares are held by Active Lights Company Limited as beneficial owner. Active Lights Company Limited is a company controlled by Yee Hing.
- (c) These shares are held by Thong Sia Company Limited ("TSCL") as beneficial owner. The Estate holds 38% and Yee Hing holds 26.25% of the issued shares of TSCL.

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

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

MAJOR CUSTOMERS AND SUPPLIERS

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

MANAGEMENT CONTRACTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

CONFIRMATION OF INDEPENDENCE BY INDEPENDENT NON-EXECUTIVE DIRECTORS

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

CONNECTED TRANSACTIONS

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

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

- (a) entered into in the usual and ordinary course of business of the Group;
- (b) conducted either (i) on normal commercial terms or (ii) where there is no available comparison on terms that are fair and reasonable so far as the independent shareholders are concerned;
- (c) entered into either (i) in accordance with the terms of agreements governing such transactions or (ii) where there are no such agreements on terms no less favourable than terms available to or from independent third parties; and
- (d) the annual aggregate value of the transactions had not exceeded the waiver limit.

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

- (a) had received the approval of the directors of the Company;
- (b) had been entered into on terms no less favourable than terms available to or from independent third parties; and
- (c) had not exceeded the waiver limit.

CONNECTED TRANSACTIONS *(Continued)*

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

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

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

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

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

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

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

- (a) historical transaction amounts for the period from 1st January 2002 up to and including 31st December 2004;
- (b) Vision Pro Group’s current status of new licensed products development; and
- (c) the estimates by Thong Sia Company (Singapore) Private Limited and Thong Sia Sdn Bhd of the pace of growth and the size of the sales of new licensed products to be purchased from Vision Pro Group.

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

CONNECTED TRANSACTIONS *(Continued)*

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

- (a) entered into in the usual and ordinary course of business of the Company;
- (b) conducted either (i) on normal commercial terms or (ii) where there is no available comparison on terms no less favourable to the Company than terms available to independent third parties; and
- (c) entered into in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

- (a) had received the approval of the directors of the Company;
 - (b) had been entered into on terms no less favourable than terms available to or from independent third parties; and
 - (c) had not exceeded the Caps.
- (3) (A) The Group entered into a tenancy agreement with International Optical Manufacturing Company Limited (“IOM”) to lease certain units in Stelux House to IOM for a period from 15th August 2004 to 31st March 2007 at a monthly rental of HK\$85,536. The Group also entered into a tenancy agreement with Yee Hing to lease certain units in Stelux House to Yee Hing for a period from 15th August 2004 to 31st March 2007 at a monthly rental of HK\$49,450. These transactions ceased when the Group disposed of its interest in Stelux House through the disposal of the entire issued share capital of a wholly-owned subsidiary company of the Group to Yee Hing on 30th March 2006.
- (B) Upon completion of the disposal of Stelux House, the Group entered into tenancy agreements (“Tenancy Agreements”) with Stelux Holdings Limited (“SHL”), the landlord of Stelux House and a wholly-owned subsidiary company of Yee Hing, to lease certain units and carparking spaces in Stelux House for the period from 30th March 2006 to 31st March 2008 at an aggregated monthly rental of HK\$373,000. The Group determined the aggregated annual cap amount for these transactions for each of the three financial years ending 31st March 2008 at HK\$4,500,000.
- (C) In addition, Stelux Properties Agency Limited (“SPAL”), a wholly-owned subsidiary of the Company, entered into an agreement with SHL (“Services Agreement”) for the provision of the following services (“Services”):
- (a) Contract administration with respect to contracts entered into between SHL and third parties from time to time;
 - (b) property agency liaison and tenancy management;
 - (c) management of the property manager of Stelux House; and
 - (d) other miscellaneous administrative services.

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

CONNECTED TRANSACTIONS *(Continued)*

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

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

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

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

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

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

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

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

CONNECTED TRANSACTIONS *(Continued)*

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

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

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

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

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

CONNECTED TRANSACTIONS *(Continued)*

- (4) The followings are the provision of the outstanding loans and the SHL guarantee in respect thereof and provision of the corporate guarantee and mortgage assets and the SHL indemnity in respect thereof following the Acquisition.
- (A) TSCL and Mengiwa have granted loans on a non-secured basis to Thong Sia Company (Singapore) Private Limited over the past 3 years to help finance its general funding needs. Based on the audited accounts of Thong Sia Company (Singapore) Private Limited as at 31st December 2004, the loans granted by TSCL and Mengiwa in aggregate amounted to S\$9,905,518 (equivalent to approximately HK\$47,150,266) (“Outstanding Loans”) and Thong Sia Company (Singapore) Private Limited had a net deficit of S\$5,112,929 (equivalent to approximately negative HK\$24,337,542) as at 31st December 2004. As a result of the negotiations with respect to the Acquisition, Yee Hing has procured each of TSCL and Mengiwa to continue to provide its portion of the Outstanding Loans to Thong Sia Company (Singapore) Private Limited for a period of not more than 18 months after completion of the Agreement on a non-secured basis on the condition that SHL guarantees the repayment obligations of Thong Sia Company (Singapore) Private Limited in respect of the Outstanding Loans. Within the said 18-month period, the Group expects to be able to arrange appropriate financing through its internal resources to repay the Outstanding Loans. There was no loan agreement between Thong Sia Company (Singapore) Private Limited and each of TSCL and Mengiwa regarding the Outstanding Loans. In connection with the Agreement, the terms of the provision of the HK\$ portion and the S\$ portion of the Outstanding Loans are recorded in the TSCL Agreement and the Mengiwa Agreement respectively as set out in the paragraphs below.
- (B) Mengiwa has been providing, for nil consideration, corporate guarantee and mortgage assets (the “Corporate Guarantee and Mortgage Assets”) to a third party bank in Singapore to support the general banking facilities of S\$2.0 million (equivalent to approximately HK\$9,520,000) overdraft facilities and S\$2.0 million (equivalent to approximately HK\$9,520,000) revolving loan facilities both granted by such third party bank to Thong Sia Company (Singapore) Private Limited since 1997 to help finance its general funding needs. As a result of the negotiations with regard to the Acquisition, Yee Hing has procured Mengiwa to continue to provide the Corporate Guarantee and Mortgage Assets for a period of not more than 18 months after completion of the Agreement to support the said existing banking facilities on the condition that SHL indemnifies Mengiwa for all its liabilities under the Corporate Guarantee and Mortgage Assets. Thong Sia Company (Singapore) Private Limited has agreed to release the Corporate Guarantee and Mortgage Assets within 18 months after completion of the Agreement. There was no agreement between Thong Sia Company (Singapore) Private Limited and Mengiwa regarding such provision of the Corporate Guarantee and Mortgage Assets by Mengiwa to support the said existing banking facilities. In connection with the Agreement, the terms of the provision of the Corporate Guarantee and Mortgage Assets are recorded in the Mengiwa Agreement.

Summary of the TSCL Agreement:***Date***

10th August 2005

Parties

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

CONNECTED TRANSACTIONS *(Continued)****Subject matter***

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

Duration

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

Summary of the Mengiwa Agreement:***Date***

10th August 2005

Parties

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

Subject matter

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

CONNECTED TRANSACTIONS *(Continued)****Duration***

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

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

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

AUDITORS

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

On behalf of the Board

Joseph C. C. Wong

Vice Chairman and Chief Executive Officer

Hong Kong, 19th July 2006