

STELUX Holdings International Limited

Incorporated in Bermuda with limited liability

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

Stock Code: 84

INTERIM REPORT 2006/2007

**INTERIM REPORT
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2006**

The directors of Stelux Holdings International Limited (the “Company”) are pleased to report the interim results and financial information of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30th September 2006. The condensed consolidated results of the Group for the six months ended 30th September 2006, the condensed consolidated balance sheet as at 30th September 2006, the condensed consolidated cash flow statement and the condensed consolidated statement of changes in equity of the Group for the six months ended 30th September 2006, all of which are unaudited, along with the relevant explanatory notes, are set out below.

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2006**

		Unaudited Six months ended 30th September 2006	2005 Restated HK\$'000
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing operations:			
Revenues	2	812,740	660,346
Cost of sales		(324,799)	(229,874)
Gross profit		487,941	430,472
Fair value gains of investment properties		–	36,660
Compensation received from arbitration		–	38,489
Other gains	3	40,559	18,209
Selling expenses		(365,444)	(320,106)
General and administrative expenses		(87,952)	(82,154)
Other operating expenses		(2,157)	(19,775)
Operating profit		72,947	101,795
Finance costs		(11,007)	(12,875)
Profit before taxation	4	61,940	88,920
Taxation charge	5	(18,725)	(12,138)
Profit from continuing operations		43,215	76,782
Discontinued operation:			
Loss from discontinued operation		–	(7,908)
Profit for the period		43,215	68,874
Attributable to:			
Equity holders of the Company			
– Continuing operations		42,677	76,782
– Discontinued operation		–	(7,908)
Minority interests-continuing operations		538	–
		43,215	68,874
Dividend	6	10,465	9,513
Earnings per share from continuing operations	7	<i>HK cents</i>	<i>HK cents</i>
– Basic		4.49	8.07
– Diluted		N/A	N/A
Loss per share from discontinued operation	7		
– Basic		–	(0.83)
– Diluted		N/A	N/A

**CONDENSED CONSOLIDATED BALANCE SHEET
AT 30TH SEPTEMBER 2006 AND 31ST MARCH 2006**

		Unaudited 30th September 2006	31st March 2006
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment	8	178,874	130,380
Investment properties	8	34,648	34,340
Prepayment of lease premium	8	146,518	146,877
Intangible assets	8	24,849	22,036
Deferred tax assets		21,113	21,840
Available-for-sale financial assets		10,920	10,920
		<u>416,922</u>	<u>366,393</u>
Current assets			
Stocks		500,682	456,827
Debtors and prepayments	9	290,677	303,926
Financial assets at fair value through profit or loss		104	90,851
Bank balances and cash		105,632	142,858
		<u>897,095</u>	<u>994,462</u>
Total assets		<u><u>1,314,017</u></u>	<u><u>1,360,855</u></u>
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	10	95,134	95,134
Reserves		562,992	525,873
Declared interim/proposed final dividend		10,465	26,638
		<u>668,591</u>	<u>647,645</u>
Shareholders' funds		668,591	647,645
Minority interests		6,480	6,777
Total equity		<u>675,071</u>	<u>654,422</u>
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		6,660	3,486
Borrowings	12	44,183	35,976
		<u>50,843</u>	<u>39,462</u>
Current liabilities			
Creditors and accruals	11	296,471	311,120
Taxation payable		31,466	26,687
Current portion of borrowings	12	260,166	329,164
		<u>588,103</u>	<u>666,971</u>
Total liabilities		<u>638,946</u>	<u>706,433</u>
Total equity and liabilities		<u><u>1,314,017</u></u>	<u><u>1,360,855</u></u>
Net current assets		<u><u>308,992</u></u>	<u><u>327,491</u></u>
Total assets less current liabilities		<u><u>725,914</u></u>	<u><u>693,884</u></u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2006**

	Unaudited Six months ended 30th September	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash from operating activities	3,868	1,524
Net cash from/(used in) investing activities	51,074	(105,533)
Net cash (used in)/from financing activities	(81,404)	126,687
Net (decrease)/increase in cash and cash equivalents	(26,462)	22,678
Cash and cash equivalents at 1st April	115,977	50,209
Effect of foreign exchange rate changes	(414)	(5,337)
Cash and cash equivalents at 30th September	<u>89,101</u>	<u>67,550</u>
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash – unrestricted	105,632	80,480
Bank overdrafts	(16,531)	(12,930)
	<u>89,101</u>	<u>67,550</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2006**

	Unaudited						
	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Minority interest <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April 2005							
As previously reported	95,134	1,977	–	(3,582)	869,918	2,494	965,941
Opening adjustment on adoption of HKAS 39	–	–	7,201	–	–	–	7,201
As restated	<u>95,134</u>	<u>1,977</u>	<u>7,201</u>	<u>(3,582)</u>	<u>869,918</u>	<u>2,494</u>	<u>973,142</u>
Minority interest – acquisition of subsidiaries	–	–	–	–	–	3,873	3,873
Exchange difference	–	–	–	(5,738)	–	(79)	(5,817)
Profit for the period	–	–	–	–	68,874	–	68,874
Dividends paid	–	–	–	–	(23,784)	–	(23,784)
At 30th September 2005	<u>95,134</u>	<u>1,977</u>	<u>7,201</u>	<u>(9,320)</u>	<u>915,008</u>	<u>6,288</u>	<u>1,016,288</u>
At 1st April 2006	<u>95,134</u>	<u>1,977</u>	<u>6,621</u>	<u>(4,477)</u>	<u>548,390</u>	<u>6,777</u>	<u>654,422</u>
Minority interest – increase in shareholdings of subsidiaries	–	–	–	–	–	(359)	(359)
Exchange difference	–	–	–	4,907	–	61	4,968
Profit for the period	–	–	–	–	42,677	538	43,215
Dividends paid	–	–	–	–	(26,638)	(537)	(27,175)
At 30th September 2006	<u>95,134</u>	<u>1,977</u>	<u>6,621</u>	<u>430</u>	<u>564,429</u>	<u>6,480</u>	<u>675,071</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. Basis of preparation and accounting policies

This unaudited condensed interim consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” and other relevant HKASs and Interpretations, the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants, and the applicable requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The condensed interim consolidated financial information should be read in conjunction with the 2006 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim consolidated financial information are consistent with those used in the annual financial statements for the year ended 31st March 2006 except for the adoption of new and revised HKASs and HKFRSs which are effective for accounting periods beginning on or after 1st April 2006 as set out below:

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

The adoption of the above new and revised accounting standards has no material impact on the Group’s balance sheet and profit and loss account.

2. Segment information

Primary reporting format – business segments

	Six months ended 30th September 2006					Group Total HK\$'000
	Continuing operations				Discontinued operation	
					Retail and trading	
	Retail and trading					
	Watch HK\$'000	Optical HK\$'000	Property HK\$'000	Sub-total HK\$'000	Hipo.fant HK\$'000	
Revenues						
Gross segment	513,662	297,329	5,161	816,152	–	816,152
Inter-segment	–	–	(3,412)	(3,412)	–	(3,412)
	<u>513,662</u>	<u>297,329</u>	<u>1,749</u>	<u>812,740</u>	<u>–</u>	<u>812,740</u>
Segment results	<u>30,425</u>	<u>27,752</u>	<u>1,841</u>	60,018	–	60,018
Unallocated income				30,527	–	30,527
Net corporate expenses				(17,598)	–	(17,598)
Operating profit				72,947	–	72,947
Finance costs				(11,007)	–	(11,007)
Profit before taxation				61,940	–	61,940
Taxation charge				(18,725)	–	(18,725)
Profit after taxation				<u>43,215</u>	<u>–</u>	<u>43,215</u>

2. Segment information (Continued)

Primary reporting format – business segments (Continued)

Six months ended 30th September 2005						
	Continuing operations				Discontinued operation	Group Total HK\$'000
					Retail and trading	
	Retail and trading					
	Watch HK\$'000	Optical HK\$'000	Property HK\$'000	Sub-total HK\$'000	Hipo.fant HK\$'000	
Revenues						
Gross segment	414,387	232,051	19,348	665,786	40,979	706,765
Inter-segment	–	–	(5,440)	(5,440)	–	(5,440)
	<u>414,387</u>	<u>232,051</u>	<u>13,908</u>	<u>660,346</u>	<u>40,979</u>	<u>701,325</u>
Segment results	<u>9,038</u>	<u>17,270</u>	<u>87,333</u>	113,641	(7,811)	105,830
Unallocated income				8,069	–	8,069
Net corporate expenses				(19,915)	–	(19,915)
Operating profit/(loss)				101,795	(7,811)	93,984
Finance costs				(12,875)	(97)	(12,972)
Profit/(Loss) before taxation				88,920	(7,908)	81,012
Taxation charge				(12,138)	–	(12,138)
Profit/(Loss) after taxation				<u>76,782</u>	<u>(7,908)</u>	<u>68,874</u>

2. Segment information (Continued)

Secondary reporting format – geographical segments

Continuing operations

	Six months ended 30th September		Segment Results	
	Turnover			
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	449,948	350,586	24,357	97,026
South East and Far East Asia	313,101	219,835	47,421	14,056
Europe	7,369	63,299	(5,153)	4,497
North America	1,380	5,315	491	1,827
Mainland China	40,942	21,311	(7,098)	(3,765)
	<u>812,740</u>	<u>660,346</u>	<u>60,018</u>	<u>113,641</u>

Discontinued operation

	Six months ended 30th September		Segment Results	
	Turnover			
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	–	36,980	–	(4,428)
South East and Far East Asia	–	1,138	–	(503)
Mainland China	–	2,861	–	(2,880)
	<u>–</u>	<u>40,979</u>	<u>–</u>	<u>(7,811)</u>

3. Other gains

	Six months ended 30th September	
	2006	2005
	HK\$'000	HK\$'000
Building management fee income	1,433	5,332
Dividend income	1,381	4
Interest income	2,334	2,668
Gain on disposal of financial assets at fair value through profit or loss	Note 29,250	–
Fair value gain on financial assets at fair value through profit or loss	–	8,000
Sundries	6,161	2,205
	<u>40,559</u>	<u>18,209</u>

Note: On 23rd August 2006, the Group disposed its entire holding of 30 million shares of a financial asset at fair value through profit or loss at HK\$4 per share, recording a gain of HK\$29,250,000 in the six months ended 30th September 2006.

4. Expenses by nature

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

	Six months ended 30th September	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing operations:		
Depreciation		
Owned property, plant and equipment	25,027	22,314
Leased property, plant and equipment	243	185
Amortisation of prepayment of lease premium	4,462	4,445
Loss on disposal of property, plant and equipment	411	225
Write-down of stocks to net realisable value	1,588	2,902
Reversal of stock write downs	(775)	(4,670)
Impairment of debtors and bad debts written off	800	1,090
	<u> </u>	<u> </u>
Discontinued operation:		
Depreciation		
Owned property, plant and equipment	–	814
Leased property, plant and equipment	–	35
Loss on disposal of property, plant and equipment	–	164
Write-down of stocks to net realisable value	–	3,263
Reversal of stock write downs	–	(7,217)
	<u> </u>	<u> </u>

5. Taxation charge

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

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

	Six months ended 30th September	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current taxation		
Hong Kong profits tax	5,227	–
Overseas profits tax	10,654	4,009
(Over)/under provision in respect of prior years	(929)	195
	<u> </u>	<u> </u>
	14,952	4,204
Deferred taxation	3,773	7,934
	<u> </u>	<u> </u>
Taxation charge	<u>18,725</u>	<u>12,138</u>

6. Dividend

	Six months ended 30th September	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim, declared, of HK\$0.011 (2005: HK\$0.01) per ordinary share	<u>10,465</u>	<u>9,513</u>

At a meeting held on 14th December 2006, the directors declared an interim dividend of HK\$0.011 per ordinary share. This dividend is not recognized as a liability at the balance sheet date, but will be reflected as an appropriation of retained earnings for the year ending 31st March 2007.

7. Earnings per share

Basic

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

	Six months ended 30th September	
	2006	2005
Weighted average number of ordinary shares in issue (thousands)	<u>951,340</u>	<u>951,340</u>
Group's profit from continuing operations attributable to equity holders (HK\$'000)	<u>42,677</u>	<u>76,782</u>
Basic earnings per share from continuing operation (HK cents per share)	<u>4.49</u>	<u>8.07</u>
Loss from discontinued operation attributable to equity holders (HK\$'000)	<u>–</u>	<u>(7,908)</u>
Basic loss per share from discontinued operation (HK cents per share)	<u>–</u>	<u>(0.83)</u>

Diluted

The diluted earnings/(loss) per share is calculated by dividing the Group's profit/(loss) attributable to equity holders by the weighted average number of ordinary shares which is adjusted for the weighted average number of shares deemed to be issued at no consideration if all outstanding options had been exercised. There were no potential ordinary shares as at 30th September 2006 and 2005.

8. 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 2006	5,315	16,721	22,036	130,380	34,340	146,877
Additions	–	–	–	70,988	–	1,492
Increase in shareholdings of subsidiaries	2,819	–	2,819	–	–	–
Exchange differences	–	(6)	(6)	3,238	308	2,611
Disposals	–	–	–	(462)	–	–
Depreciation/amortisation	–	–	–	(25,270)	–	(4,462)
Closing net book amount as at 30th September 2006	<u>8,134</u>	<u>16,715</u>	<u>24,849</u>	<u>178,874</u>	<u>34,648</u>	<u>146,518</u>
Opening net book amount as at 1st April 2005	–	17,052	17,052	154,670	712,350	162,830
Acquisition of subsidiary	–	–	–	3,107	9,960	–
Additions	4,231	–	4,231	27,242	–	10,415
Exchange differences	–	(19)	(19)	(3,068)	–	(3,078)
Disposals	–	–	–	(389)	–	(291)
Depreciation/amortisation	–	–	–	(23,348)	–	(4,445)
Fair value gains	–	–	–	–	36,660	–
Reversal of impairment	–	–	–	257	–	–
Closing net book amount as at 30th September 2005	<u>4,231</u>	<u>17,033</u>	<u>21,264</u>	<u>158,471</u>	<u>758,970</u>	<u>165,431</u>
Additions	–	–	–	36,061	–	166
Exchange differences	1,084	(312)	772	2,181	456	3,427
Disposals of subsidiaries	–	–	–	(36,346)	(746,200)	(17,849)
Disposals	–	–	–	(1,661)	(450)	(5)
Depreciation/amortisation	–	–	–	(28,326)	–	(4,293)
Fair value gains	–	–	–	–	21,564	–
Closing net book amount as at 31st March 2006	<u>5,315</u>	<u>16,721</u>	<u>22,036</u>	<u>130,380</u>	<u>34,340</u>	<u>146,877</u>

9. 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 impairment of debtors) with the following aging analysis:

	30th September 2006	31st March 2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade debtors		
Below 60 days	54,933	86,340
Over 60 days	13,721	15,098
	<u>68,654</u>	<u>101,438</u>
Deposits, prepayments and other debtors	222,023	202,488
	<u>290,677</u>	<u>303,926</u>

10. Share capital

**Number of
shares of
HK\$0.1 each**

Issued and fully paid:

At 30th September 2005, 1st April 2006 and 30th September 2006	<u>951,340,023</u>
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Note:

No share options were exercised, granted or lapsed during the six months ended 30th September 2006 and the year ended 31st March 2006.

11. Creditors and accruals

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

	30th September 2006	31st March 2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade creditors		
Below 60 days	103,810	110,359
Over 60 days	52,021	34,606
	<u>155,831</u>	<u>144,965</u>
Other creditors and accruals	140,640	166,155
	<u>296,471</u>	<u>311,120</u>

12. Borrowings

		30th September 2006	31st March 2006
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans and overdrafts	(a)	287,679	321,674
Loans from related companies	(b)	15,628	42,278
Obligations under finance leases	(c)	1,042	1,188
		<u>304,349</u>	<u>365,140</u>
Amount repayable within one year included under current liabilities		<u>(260,166)</u>	<u>(329,164)</u>
		<u>44,183</u>	<u>35,976</u>

Notes:

- (a) Bank loans and overdrafts

	30th September 2006	31st March 2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Secured	151,772	309,376
Unsecured	135,907	12,298
	<u>287,679</u>	<u>321,674</u>

	30th September 2006	31st March 2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
The long term bank loans are repayable as follows:		
Not exceeding one year	9,230	8,927
More than one year, but not exceeding two years	8,812	7,219
More than two years, but not exceeding five years	17,772	15,074
More than five years	16,924	12,996
	<u>52,738</u>	<u>44,216</u>

- (b) The loans from related companies are unsecured, bear interest at prime rate less 2% and are obliged to be fully repaid on 31st March 2007.

12. Borrowings (Continued)

Notes: (Continued)

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

	30th September 2006 HK\$'000	31st March 2006 HK\$'000
Not exceeding one year	412	555
More than one year, but not exceeding two years	287	352
More than two years, but not exceeding five years	457	419
	<hr/>	<hr/>
	1,156	1,326
Future finance charges on finance leases	(114)	(138)
	<hr/>	<hr/>
Present value of finance lease liabilities	<u>1,042</u>	<u>1,188</u>
The present value of finance lease liabilities is as follows:		
Not exceeding one year	367	503
More than one year, but not exceeding two years	250	304
More than two years, but not exceeding five years	425	381
	<hr/>	<hr/>
	<u>1,042</u>	<u>1,188</u>

13. Commitments

	30th September 2006 HK\$'000	31st March 2006 HK\$'000
Capital commitments for property, plant and equipment:		
Contracted but not provided for	<u>–</u>	<u>842</u>

14. Related party transactions

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

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*

	Six months ended 30th September	
	2006	2005
	HK\$'000	HK\$'000
Rental income received and receivable from related companies (<i>note 1</i>)	–	810
Interest income from a related company (<i>note 2</i>)	917	1,664
Property management service income (<i>note 3</i>)	1,020	–

Note 1: On 14th August 2001, Mengiwa Property Investment Limited ("Mengiwa") (previously known as Stelux Holdings Limited), a former wholly owned subsidiary company of the Company, entered into lease agreements with Yee Hing and International Optical Manufacturing, a 60% owned subsidiary company of Yee Hing 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. The Group has no such rental income since the disposal of Mengiwa on 30th March 2006.

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

Note 3: Stelux Properties Agency Limited, a wholly-owned subsidiary of the Group entered into an agreement ("Services Agreement") with Mengiwa, a wholly-owned subsidiary company of Yee Hing since 30th March 2006 for the provision of the following services ("Services"):

- (a) Contract administration with respect to contracts entered into between Mengiwa and third parties from time to time;
- (b) property agency liaison and tenancy management;
- (c) management of the property manager of Stelux House; and
- (d) other miscellaneous administrative services.

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

14. Related party transactions (Continued)

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

	Six months ended 30th September	
	2006	2005
	HK\$'000	HK\$'000
Purchases of goods from related companies		
– Related companies	4,848	2,797
– Subsidiaries (note a)	–	24,131
Interest expense to a related company	1,498	30
Interest expense to a shareholder	–	50
Interest expense to directors	–	8
Rental expense to related companies (note b)	<u>3,450</u>	<u>88</u>

Notes:

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

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

In addition, the Group entered into tenancy agreements with Mengiwa, the landlord of Stelux House, 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.

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

	30th September 2006	31st March 2006
	HK\$'000	HK\$'000
Rent receivable from related companies	–	476
Interest receivable from a related company	34,528	33,610
Trading balances receivable from a related company	–	3,973
Trading balances payable to related companies	<u>9,430</u>	<u>2,030</u>

14. Related party transactions (Continued)

(iv) Key management compensation

	Six months ended 30th September	
	2006	2005
	HK\$'000	HK\$'000
Salaries and other short-term employee benefits	7,818	11,525
Other long-term benefits	152	115
	<u>7,970</u>	<u>11,640</u>

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF GROUP OPERATIONS

For the first six months ended 30th September 2006, the Group announces a net contribution to its shareholders of HK\$42.7 million after tax and minority interests. During the same period last year, the Group announced a net profit of HK\$68.8 million which included two major sources of non-recurring income. For the first six months of this financial year, the Group's watch and optical businesses reported a growth in profits. Group turnover was up 16% compared to last year from HK\$701 million (restated) to HK\$813 million.

The Directors have proposed that an interim dividend of HK\$0.011 per share, representing an increase of 10% compared to the first six months ended 30th September 2005, be payable to its shareholders.

WATCH RETAIL BUSINESS

The Group's watch retail business comprising of "City Chain", "Moments" and "Genie" generally returned a better performance compared to the same period last year, with a year on year increase in turnover of 16%. Profits before tax for this sector was HK\$18 million compared to a loss of nearly HK\$3 million during the same time last year.

Our operations in Singapore, Malaysia and Thailand returned stellar performances in all instances, vastly improved compared to last year. There was an overall increase in turnover of 21% and profits of almost HK\$20 million compared to profits of HK\$3.9 million last year. Without accounting for foreign exchange gains, our Thai, Malaysian and Singapore operations alone reported an average year on year growth in profits of 75%. We are confident that all these operations will continue to report good results for the second half of the financial year.

Our Hong Kong and Macau operations reported a gain in turnover up by 8% from last year returning a profit of HK\$4.2 million compared to breakeven results last year. Turnover growth in Macau was very satisfactory but turnover growth in Hong Kong was less than expected. Heavy reliance on mainland solo visitors, (with a drop in arrivals reported during the period under review), impacted on Hong Kong's turnover growth. We expect the performance of our Macau operations to continue its good performance for the rest of the year. In view of resurgent local consumption sentiment, we expect our Hong Kong operations to catch up in the second half of the financial year.

Operations in the Mainland returned a significantly improved turnover up by 108% compared to the corresponding period last year. However, due to high setting up costs, losses widened from last year. We expect results to improve when critical mass is reached within one to two years and are confident that this segment will become a profit contributor.

OPTICAL RETAIL BUSINESS

The optical retail segment of the Group's business consisting of "Optical 88", "INSIGHT" and "IZE", reported significant growth compared to the same period last year – with a 28% increase in turnover to HK\$297 million and a 64% increase in profits to HK\$25 million before tax.

Operations in Hong Kong and Macau generated profits of nearly HK\$19 million before tax. Increased market share, enhancement of shop image together with constant improvements made to product mix contributed to the pleasing results.

Operations in Singapore, Thailand and Malaysia all performed well, despite increased oil prices in these countries and the political uncertainty in Thailand reporting an overall turnover increase of 31% and profits of HK\$8 million. Likewise, without accounting for foreign exchange gains, our Thai, Malaysian and Singapore operations reported an average year on year growth in profits of 88%.

Our optical business in the Mainland also reported a significant growth in turnover up by 118%. However, due also to high set up costs, losses were also reported for the first six months. Like our watch retail business on the Mainland, we are confident that this segment will also become a profit contributor when critical mass is reached within the next one to two years.

Growth in the optical business is expected to continue during the second half of the financial year.

WATCH ASSEMBLY, WHOLESALE AND EXPORT TRADING

Our export trading unit reported a huge drop in turnover and a loss of nearly HK\$5 million as negotiations on new watch licences, to replace a previous licensed brand, has taken longer than expected. Performance at this unit is expected to improve over the next 18 months when more licences are signed and new products are launched. The decrease in turnover has also impacted on our watch assembly unit since it also produces for our export trading unit. A loss of around HK\$2 million was reported but is expected to narrow in the next six months. We have already undertaken measures to cut costs at these two subsidiaries and will continue to monitor the situation closely.

Our Swiss subsidiary, Universal Geneve S.A., reported a wider than expected loss of HK\$6.7 million. This was due mainly to developmental costs for the second generation "MICROTOR" movement to be launched at the Basel Watch Fair 2007. Research and development costs for this movement will continue to be incurred and expensed over the next six months. The situation at Universal Geneve S.A. will continue to be periodically reviewed.

The Group's wholesale arm, the Thong Sia Group operating in Hong Kong, Singapore, Malaysia and recently in Taiwan reported an overall profit and was a major profit contributor to the Group's performance. Without accounting for seasonal factors, there was a 34% growth in profits for the first six months ended 30th September 2006 compared to the last six months of the previous financial year. The improved performance was the result of the synergy effect brought on by the acquisition. For the second half of this financial year, which traditionally outperforms the first half, the good performance is expected to continue.

INVESTMENT HOLDING

During the period under review, the Group disposed of 30 million shares in Xinyu Hengdeli ("Xinyu") at HK\$4.00 per share. These shares were acquired at the time of Xinyu's initial public offering at a price of HK\$1.32 per share. As a result of this disposal, a gain of HK\$29.25 million before tax has been realized for the period ended 30th September 2006.

FINANCE

The Group's bank borrowings at balance sheet date were HK\$288 million (at 31st March 2006: HK\$322 million), out of which, HK\$243 million (at 31st March 2006: HK\$286 million) were repayable within 12 months. The Group's gearing ratio at balance sheet date was 0.43 (at 31st March 2006: 0.50), which was calculated based on the Group's bank borrowings and shareholders' funds of HK\$669 million (at 31st March 2006: HK\$648 million).

Of the Group's bank borrowings, 12% (at 31st March 2006: 10%) 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.

The Group does not use any financial instruments for hedging purposes.

As at 30th September 2006, the Group does not have any significant contingent liabilities.

For the current financial period, the Group does not have plans for material investments or change of capital assets.

CAPITAL STRUCTURE OF THE GROUP

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

SHARE OPTIONS

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 2006. No option was granted during the period and there was no option outstanding as at 30th September 2006. As at 30th September 2006, 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, a 2% equity interest stake in each of Thong Sia Watch Company Limited and Thong Sia Sdn Bhd were acquired at a total consideration of HK\$1,393,000. There were no other significant acquisitions during the period under review.

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 financial statements.

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

The Group's remuneration policies are reviewed on a regular basis and remuneration packages are in line with market practices in the relevant countries where the Group operates. As of 30th September 2006, the Group had 2,565 (at 30th September 2005: 2,479) employees.

DETAILS OF THE CHARGES ON GROUP ASSETS

At 30th September 2006, certain of the Group's land and buildings amounting to HK\$55 million (at 31st March 2006: HK\$14 million), investment properties amounting to HK\$34 million (31st March 2006: HK\$33 million) and leasehold land amounting to HK\$99 million (31st March 2006: HK\$101 million) were pledged to secure banking facilities granted to the Group.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES

Mr Wong Chong Po, Mr Joseph C. C. Wong, Mr Anthony Chu Kai Wah, Mr Stan Lee Shu Chung and Mr Vincent Lau Tak Bui 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 2006 amounted to HK\$3,711,000 (2005: HK\$5,989,000).

As at 30th September 2006, the interests and short positions of the Directors, and the Company's chief executive in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("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.

(a) The Company – Ordinary shares

Directors	Capacity	Total	Approximate percentage of issued share capital as at 30th September 2006
Mr Wong Chong Po	Trustee (other than a bare trustee)	7,200,000	0.76
Mr Joseph C. C. Wong	Beneficial owner	93,090,011	9.79
Mr Chu Kai Wah, Anthony	Beneficial owner	2,000,000	0.21
Mr Sakorn Kanjanapas	Beneficial owner	6,991,056	0.73
Mr Lee Shu Chung, Stan	Beneficial owner	2,000,000	0.21
Mr Lau Tak Bui, Vincent	Beneficial owner	819,200	0.09

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES (Continued)

(b) Subsidiary companies

					Approximate percentage of preference shares as at 30th September 2006
Number of shares					
	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

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, none of the Directors or the Company's chief executive, 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.

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 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	344,031,771	36.16	(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. Mr. Wong Chong Po and Mr. Joseph C.C. Wong are directors of Yee Hing Company Limited. Mr. Vincent Lau Tak Bui is the company secretary of 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. Mr. Wong Chong Po and Mr. Joseph C.C. Wong are directors of Active Lights Company Limited. Mr. Vincent Lau Tak Bui is the company secretary of Active Lights Company Limited.
- (c) These shares are held by Thong Sia Company Limited as beneficial owner. Yee Hing Company Limited holds 66.25% of the issued shares of Thong Sia Company Limited. Mr. Wong Chong Po, Mr. Joseph C.C. Wong and Mr. Vincent Lau Tak Bui are directors of Thong Sia Company Limited. Mr. Vincent Lau Tak Bui is the company secretary of Thong Sia Company Limited.

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

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 was directly or indirectly interested in 10% 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.

OTHER DIRECTORS' INTERESTS

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.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 29th January 2007 (Monday) to 2nd February 2007 (Friday) 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 26th January 2007 (Friday). The interim dividend will be paid on 15th February 2007 (Thursday).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

CORPORATE GOVERNANCE

During the six months ended 30th September 2006, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code Provisions") as set out in Appendix 14 of the Listing Rules, except for the following deviations:–

Code Provision A.4.2

Under Code Provision A.4.2, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Not all Directors of the Company retire strictly under Code Provision A.4.2 but in accordance with the Company's Bye-Laws. Bye-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.1.3

This Code Provision deals with the terms of reference of the remuneration committee. The Company has adopted the terms of reference under Code Provision B.1.3 except that the terms of reference do not include reviewing and determining the 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.

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 2006 as he was not in Hong Kong.

Internal Controls

Pursuant to Code Provision C.2.1, the directors will conduct an annual review of the effectiveness of the system of internal control of the issuer and its subsidiaries before 31st March 2007. The review will cover all material controls, including financial, operational and compliance controls and risk management functions.

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. Wu Chun Sang, Prof. Lawrence Wu Chi Man and Dr. Agnes Kwong Yi Hang (appointed on 6th September 2006). 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 9th December 2006 to review the Group's results for the six months ended 30th September 2006 before they were presented to the board of directors for approval.

Remuneration Committee

The Remuneration Committee held a meeting on 14th March 2006 to conduct an annual review of the remuneration packages of the Company's executive directors.

Model Code for Securities Transactions by Directors of Listed Issuers

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

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

All directors complied with the provisions of the Model Code during the six months ended 30th September 2006.

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

Hong Kong, 14th December 2006

Directors of the Company as at the date hereof:

Executive directors:

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

Non-Executive directors:

Sakorn Kanjanapas, Wu Chun Sang (*independent*), Lawrence Wu Chi Man (*independent*) and Agnes Kwong Yi Hang (*independent – appointed on 6th September 2006*).