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STELUX Holdings International Limited

寶光實業(國際)有限公司*

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

ANNOUNCEMENT

**PROPOSED CONNECTED AND DISCLOSEABLE TRANSACTIONS –
ACQUISITION OF 100%, 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, AND
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
AND
CONTINUING CONNECTED TRANSACTIONS FOLLOWING THE
ACQUISITION
AND
CHANGES IN EXISTING CONTINUING CONNECTED
TRANSACTIONS FOLLOWING THE ACQUISITION**

(1) THE ACQUISITION

The Board wishes to announce that the Agreement was entered into between SHL, an indirect wholly-owned subsidiary of the Company, Yee Hing and Mr Anant Kanjanapas (alias Wong Chong Po, the chairman and director of the Company) acting in his capacity as the sole executor of the Estate, pursuant to which SHL has agreed to acquire (the “Acquisition”) from Yee Hing and the Estate respectively the Yee Hing Sale Equity and the Estate Sale Equity, for a total consideration of HK\$55,267,775 (the “Sale Equity Consideration”) (as to HK\$34,000,010 for the Yee Hing Sale Equity and as to HK\$21,267,765 for the Estate Sale Equity).

* For identification purpose only

Yee Hing negotiated and acquired the Yee Hing Sale Equity from the original founders (other than the Estate) and their respective successors (as the case may be) of each of the Thong Sia Companies around April and May 2005 and the Estate is one of the five original founders in each of the Thong Sia Companies. On 18 July 2005, the Board has resolved to acquire a majority stake in each of the Thong Sia Companies from the Estate and Yee Hing together. The consideration paid by SHL for the Yee Hing Sale Equity is equivalent to the cost paid by Yee Hing to acquire the Yee Hing Sale Equity.

As part of the transactions contemplated under the Agreement, Thong Sia Company (Singapore) Pte Limited, which will become a wholly-owned subsidiary of the Company upon completion of the Agreement, will repay its outstanding loans (the “Outstanding Loans”) owed to TSCL and Mengiwa not later than 18 months after completion of the Agreement. Pursuant to the Agreement, the Vendors have warranted that the book value of the Outstanding Loans will be in an aggregate amount of S\$8,855,098 (equivalent to approximately HK\$42,150,266) comprising HK\$27 million owed to TSCL and S\$3,182,829 (equivalent to approximately HK\$15,150,266) owed to Mengiwa as at the completion date of the Agreement. The Outstanding Loans will be interest bearing, at an annual rate of 2% below the prime or best-lending rate quoted by a leading local bank in Hong Kong and Singapore respectively in respect of the HK\$ and S\$ portion. The Sale Equity Consideration and the repayment of Outstanding Loans with the associated interest charges will be funded by the Group in cash out of its internal resources.

Despite the fact that there have been no formal distributorship agreements with Seiko Watch Group, each of the Thong Sia Companies (including the predecessor of Thong Sia Watch Company Limited) has a longstanding distributor relationship with Seiko Watch Group. The Vendors have made representations to SHL under the Agreement that, to the best of their knowledge, information and belief, each of Thong Sia Company (Singapore) Pte Limited, Thong Sia Watch Company Limited and Thong Sia Sdn Bhd is the sole distributor of branded watches, clocks and timepieces of Seiko Watch Group in Singapore, Hong Kong and Malaysia respectively.

Yee Hing has undertaken (the “Yee Hing Undertaking”) to SHL for a period of three years following the date of completion of the Agreement that the sole distributorship of the Thong Sia Companies regarding the branded clocks, watches and timepieces of Seiko Watch Group in Singapore, Hong Kong and Malaysia will remain in place (unless as a result of willful default on the part of the Thong Sia Companies). In the event of a breach of the Yee Hing Undertaking, Yee Hing will pay an amount equal to the difference between the net tangible asset value of the Thong Sia Companies (with respect to the audited accounts of Thong Sia Companies, to be prepared on a combined basis, as at the completion date of the Agreement), attributable to the Sale Equity and the Sale Equity Consideration.

The Agreement and the transactions being contemplated therein were negotiated on an arm’s length basis between SHL and the Vendors. The Board (including all independent non-executive Directors) considers the terms and conditions of the Agreement to be on a normal commercial basis, are fair and reasonable and the Agreement is in the interests of the Company and the Shareholders as a whole.

Since (i) the Estate (through various holding companies including Yee Hing which is interested in approximately 44% of the issued share capital of the Company) is the controlling shareholder (as defined in the Listing Rules) of the Company, and (ii) Mr Anant Kanjanapas (alias Wong Chong Po) is the chairman and director of the Company, the Estate, Yee Hing and Mr Anant Kanjanapas (alias Wong Chong Po) are connected persons of the Group for the purpose of the Listing Rules. Based on the applicable size tests performed regarding the Acquisition, the relevant percentage ratios under Rule 14.07 of the Listing Rules exceed 5% but are less than 25%. The applicable percentage ratios under Rule 14A.32 of the Listing Rules are more than 2.5% and the Sale Equity Consideration is more than HK\$10 million. Accordingly, the transactions contemplated under the Agreement constitute connected and discloseable transactions for the Company and will be subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules and also subject to the approval of the Independent Shareholders in the SGM by poll.

(2) CONTINUING CONNECTED TRANSACTIONS FOLLOWING THE ACQUISITION

Since the Estate holds more than 30% equity interests in each of TSCL and Mengiwa respectively, TSCL and Mengiwa are connected persons (as defined in the Listing Rules) of the Group by virtue of the fact that they are associates of the Estate which is a connected person (as defined in the Listing Rules) of the Group. Since TSCL and Yee Hing each holds more than 30% equity interests in Vision Pro Group, Vision Pro Group is a connected person (as defined in the Listing Rules) of the Group by the virtue of the fact that it is an associate of TSCL and Yee Hing which are connected persons (as defined in the Listing Rules) of the Group. TSICL, a wholly-owned subsidiary of a connected person (as defined in the Listing Rules) of the Group, TSCL, is therefore also a connected person (as defined in the Listing Rules) of the Group.

Upon completion of the Agreement, it is expected the following subsisting transactions involving Mengiwa, Vision Pro Group, TSICL, Thong Sia Company (Singapore) Pte Limited, Thong Sia Watch Company Limited and/or Thong Sia Sdn Bhd should become continuing connected transactions for the Company:

- Continual purchases of optical products by Thong Sia Company (Singapore) Pte Limited and Thong Sia Sdn Bhd from Vision Pro Group (the Company proposes to set the maximum aggregate annual consideration for such purchases at HK\$2.00 million, HK\$2.50 million and HK\$2.75 million for each of the three financial years ending 31 March 2008);

It is expected that each of the applicable percentage ratios as defined in Rule 14A.10 of the Listing Rules, will be less than 2.5% for each of the three financial years hereafter with respect to the aforesaid continual purchases of optical products by Thong Sia Company (Singapore) Pte Limited and Thong Sia Sdn Bhd from Vision Pro Group. As such, the aforesaid continual purchases shall be classified as continuing connected transactions (according to Rule 14A.34 of the Listing Rules) for the Company upon completion of the Agreement subject to the reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Listing Rules and are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

- Leasing of premises by Thong Sia Company (Singapore) Pte Limited from Mengiwa for an annual aggregate sum of S\$420,000 (equivalent to approximately HK\$1,999,200) including the annual rent, management fee and air-conditioning charge; and

As the aggregate sum of the annual rent, management fee and air-conditioning charge payable by Thong Sia Company (Singapore) Pte Limited under such leasing of premises from Mengiwa represents less than 2.5% of the applicable percentage ratios under Rule 14A.10 of the Listing Rules, the transactions contemplated under the said leasing of premises shall be classified as continuing connected transactions (according to Rule 14A.34 of the Listing Rules) for the Company upon completion of the Agreement subject to reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Listing Rules and are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

- Leasing of premises by Thong Sia Watch Company Limited from TSICL for an annual rent of HK\$1,428,960 excluding the management fee, air-conditioning charge, security charge and government rate.

As the annual rent payable by Thong Sia Watch Company Limited under the such leasing of premises from TSICL represents less than 2.5% of the applicable percentage ratios under Rule 14A.10 of the Listing Rules, the transactions contemplated under the said leasing of premises shall be classified as continuing connected transactions (according to Rule 14A.34 of the Listing Rules) for the Company upon completion of the Agreement subject to the reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Listing Rules and are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(3) 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

- Provision of the Outstanding Loans by TSCL and Mengiwa to Thong Sia Company (Singapore) Pte Limited and provision of the SHL Guarantee by SHL in respect of the Outstanding Loans

TSCL and Mengiwa have granted loans on a non-secured basis to Thong Sia Company (Singapore) Pte Limited over the past 3 years to help finance its general funding needs. The Directors consider it to be beneficial to Thong Sia Company (Singapore) Pte Limited for it to maintain the Outstanding Loans after completion of the Agreement.

In connection with the Agreement, TSCL and Mengiwa have agreed to continue to provide the Outstanding Loans to Thong Sia Company (Singapore) Pte Limited after completion of the Agreement on a non-secured basis on the condition that SHL guarantees the repayment obligations of Thong Sia Company (Singapore) Pte Limited in respect of the Outstanding Loans.

- Provision of the Corporate Guarantee and Mortgage Assets by Mengiwa to a third party bank in Singapore to support certain existing banking facilities of Thong Sia Company (Singapore) Pte Limited and provision of the SHL Indemnity by SHL in respect of the Corporate Guarantee and Mortgage Assets.

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) Pte Limited since 1997 to help finance its general funding needs. The Directors consider it to be beneficial to Thong Sia Company (Singapore) Pte Limited for it to maintain the said banking facilities after completion of the Agreement.

In connection with the Agreement, Mengiwa has agreed to continue to provide the Corporate Guarantee and Mortgage Assets, for nil consideration, to support the aforesaid banking facilities of Thong Sia Company (Singapore) Pte Limited after completion of the Agreement on the condition that SHL indemnify Mengiwa for all its liabilities under the Corporate Guarantee and Mortgage Assets.

- The TSCL Agreement and the Mengiwa Agreement

In connection with the Agreement, the TSCL Agreement was entered into, amongst others, between SHL, Thong Sia Company (Singapore) Pte Limited and TSCL, pursuant to which TSCL has agreed to, amongst other matters, continue to provide the HK\$ portion of the Outstanding Loans with terms as set out in the paragraph above entitled “The Acquisition” and Thong Sia Company (Singapore) Pte Limited has agreed to, amongst other matters, repay such HK\$ portion of the Outstanding Loans not later than 18 months after completion of the Agreement. Furthermore, SHL has agreed to, amongst other matters, guarantee the repayment obligations of Thong Sia Company (Singapore) Pte Limited in respect of the HK\$ portion of the Outstanding Loans owed to TSCL.

In connection with the Agreement, the Mengiwa Agreement was entered into between SHL, Thong Sia Company (Singapore) Pte Limited and Mengiwa, pursuant to which Mengiwa has agreed to, amongst other matters, continue to provide the S\$ portion of the Outstanding Loans with terms as set out in the paragraph above entitled “The Acquisition” and the Corporate Guarantee and Mortgage Assets for nil consideration and Thong Sia Company (Singapore) Pte Limited has agreed to, amongst other matters, repay such S\$ portion of the Outstanding Loans and release the Corporate Guarantee and Mortgage Assets not later than 18 months after completion of the Agreement. Furthermore, SHL has agreed to, amongst other matters, guarantee the repayment obligations of Thong Sia Company (Singapore) Pte Limited in respect of the S\$ portion of the Outstanding Loans owed to Mengiwa and to indemnify Mengiwa (the “SHL Indemnity”) with respect to all its liabilities under the provision of the Corporate Guarantee and Mortgage Assets after completion of the Agreement.

- Connected and discloseable transactions

SHL is an 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 the Outstanding Loans by TSCL and Mengiwa to Thong Sia Company (Singapore) Pte 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) Pte Limited (together with the SHL Indemnity provided by SHL to Mengiwa in respect thereof) shall be financial assistance (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 Group (the SHL Guarantee and the SHL Indemnity) is granted in respect of such financial assistance and shall 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 shall be aggregated. Based on the applicable size tests performed regarding the provision of the Outstanding Loans and the Corporate Guarantee and Mortgage Assets, the relevant percentage ratio under Rule 14.07 of the Listing Rules exceeds 5% but is less than 25%. Accordingly and pursuant to Rule 14A.63 of the Listing Rules, the transactions contemplated under the provision of Outstanding Loans together with the SHL Guarantee provided by SHL in respect thereof and the continual provision of the Corporate Guarantee and Mortgage Assets together with the SHL Indemnity provided by SHL in respect thereof upon completion of the Agreement shall constitute connected and discloseable transactions for the Company and will be subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules and also subject to the approval of the Independent Shareholders in the SGM by poll.

The Directors are of the view that the provision of Outstanding Loans together with the SHL Guarantee provided by SHL in respect thereof and the continual provision of the Corporate Guarantee and Mortgage Assets together with the SHL Indemnity provided by SHL in respect thereof upon completion of the Agreement are for the benefit of the Company and the Shareholders as a whole and are on normal commercial terms. The Directors consider that the TSCL Agreement and the Mengiwa Agreement have been entered into on normal commercial terms after arm’s length negotiations between the parties. The Directors are also of the view that the terms of the TSCL Agreement and Mengiwa Agreement are fair and reasonable and they are in the interests of the Company and the Shareholders as a whole.

(4) CHANGES IN EXISTING CONTINUING CONNECTED TRANSACTIONS FOLLOWING THE ACQUISITION

Before completion of the Agreement, the Estate holds more than 30% equity interests in each of the Thong Sia Companies. As such, each of the Thong Sia Companies is a connected person (as defined in the Listing Rules) of the Group by virtue of the fact that each of the Thong Sia Companies is an associate of the Estate which is a connected person (as defined in the Listing Rules) of the Group. Accordingly, the following transactions are currently classified as continuing connected transactions for the Company:—

- Purchases of timepieces by the Group from Thong Sia Companies (amounted to approximately HK\$41.0 million for the year ended 31 March 2005 based on the audited accounts of the Group); and
- Purchases of optical products by the Group from Thong Sia Company (Singapore) Pte Limited and Thong Sia Sdn Bhd (amounted to approximately HK\$0.6 million for the year ended 31 March 2005 based on the audited accounts of the Group).

Upon completion of the Agreement, Thong Sia Companies will no longer be connected persons (as defined in the Listing Rules) of the Company and therefore the abovementioned existing continuing connected transactions of the Company will become intra-group transactions and therefore will no longer constitute continuing connected transactions for the Company.

The Independent Board Committee, comprising Mr Kwong Yiu Chung and Mr Wu Chun Sang, has been formed by the Board to advise the Independent Shareholders in respect of the transactions contemplated under the Agreement, the TSCL Agreement and the Mengiwa Agreement. An independent financial adviser will be appointed to advise the Independent Board Committee and Independent Shareholders in respect of the transactions contemplated under the Agreement, the TSCL Agreement and the Mengiwa Agreement; and the terms of the Agreement, the TSCL Agreement and the Mengiwa Agreement.

A circular containing information regarding, amongst other matters, the Agreement, the TSCL Agreement, the Mengiwa Agreement, the Yee Hing Undertaking, the continuing connected transactions following the Acquisition, the advice from the Independent Board Committee to the Independent Shareholders, the advice of the independent financial adviser in connection with the Agreement, the TSCL Agreement, the Mengiwa Agreement and the notice of the SGM will be despatched to the Shareholders as soon as practical. The Estate, Yee Hing and Mr Anant Kanjanapas (alias Wong Chong Po) and their respective associates (as defined in the Listing Rules) will abstain from voting at the SGM.

(1) THE ACQUISITION

THE AGREEMENT

Date: 10 August, 2005

- Parties: (1) Yee Hing and Mr Anant Kanjanapas (alias Wong Chong Po, the chairman and director of the Company) acting in his capacity as the sole executor of the Estate, both as sellers under the Agreement; and
- (2) SHL, an indirect wholly-owned subsidiary of the Company, as purchaser under the Agreement.

Background of the Agreement

Thong Sia Companies (including the predecessor of Thong Sia Watch Company Limited) have been distributing branded watches, clocks and timepieces of Seiko Watch Group in Hong Kong, Singapore and Malaysia over the past twenty years. TSCL is the predecessor of Thong Sia Watch Company Limited carrying out, amongst other businesses, the business of distributing branded watches, clocks and timepieces of Seiko Watch Group in Hong Kong. Thong Sia Watch Company Limited was incorporated to focus on watch distribution business pursuant to a business restructuring of TSCL in 1996.

In the past more than ten years, each of the Thong Sia Companies has been a supplier of watches, clocks and timepieces for the Group. Mr Wong Chue Meng, the deceased chairman of the Company, was one of the five original founders in each of the Thong Sia Companies since more than two decades ago and the Estate owns over 30% equity interest in each of the Thong Sia Companies. Mr Wong Chue Meng's son, Mr Chumphol Kanjanapas (alias Joseph C.C. Wong), the vice chairman and chief executive officer of the Company, has been the chairman of each of the Thong Sia Companies since the beginning of 2003.

Since most of the original founders of Thong Sia Companies had passed their shareholdings in the Thong Sia Companies to their respective successors, there were more than ten shareholders in Thong Sia Companies besides the Estate. Yee Hing was not a shareholder in any of the Thong Sia Companies before its acquisition of the Yee Hing Sale Equity from the said many shareholders in Thong Sia Companies around April and May 2005.

With the passing away of Mr Wong Chue Meng in mid-2003, the Estate has indicated to the Company that it intended to dispose of certain of its assets including its shareholding in the Thong Sia Companies. The sale of the Yee Hing Sale Equity by Yee Hing to the Company had offered an opportunity where the Company could acquire the shareholding in Thong Sia Companies attributable to Yee Hing Sale Equity in a simplified process i.e. through one single transaction and without dealing with lots of parties. In order to better optimise management resources and enhance the future growth of the Group, the Company has resolved on 18 July 2005 to acquire a majority stake in each of the Thong Sia Companies from the Estate and Yee Hing together. Nevertheless, there is no obligation for the Company to acquire the Yee Hing Sale Equity from Yee Hing. The Directors are of the view that the acquisitions of the Yee Hing Sale Equity are separate transactions from the Acquisition and such acquisitions of the Yee Hing Sale Equity by Yee Hing should not have any implications under the Listing Rules as far as the Company is concerned. As such, if the Acquisition is not completed for whatever reasons, the Yee Hing Sale Equity will remain the assets of Yee Hing.

Transactions

Pursuant to the Agreement, SHL has agreed to acquire (the "Acquisition") and each of the two Vendors has agreed to sell the Yee Hing Sale Equity and the Estate Sale Equity respectively.

TSCL and Mengiwa have granted loans, without any interest charges, on a non-secured basis to Thong Sia Company (Singapore) Pte Limited over the past 3 years to help finance its general funding needs. Based on the audited accounts of Thong Sia Company (Singapore) Pte Limited as at 31 December 2004, the loans granted by TSCL and Mengiwa amounted to an aggregate amount of S\$9,905,518 (equivalent to approximately HK\$47,150,266) as to HK\$32 million owed to TSCL and S\$3,182,829 (equivalent to approximately HK\$15,150,266) owed to Mengiwa. As part of the transactions contemplated under the Agreement, Thong Sia Company (Singapore) Pte Limited will repay as to HK\$5 million to TSCL upon completion of the Agreement. Pursuant to the Agreement, the Vendors have warranted that Thong Sia Company (Singapore) Pte Limited will have outstanding loans (the “Outstanding Loans”) of approximately S\$8,855,098 (equivalent to approximately HK\$42,150,266), comprising HK\$27 million owed to TSCL and S\$3,182,829 (equivalent to approximately HK\$15,150,266) owed to Mengiwa as at the completion date of the Agreement. The aggregate amount of Outstanding Loans will be equivalent to the outstanding principal of such loans as at the completion date of the Agreement. SHL and the Vendors agreed that Thong Sia Company (Singapore) Pte Limited will repay the Outstanding Loans not later than 18 months after completion of the Agreement, and the Outstanding Loans will be interest bearing, at an annual rate of 2% below the prime or best-lending rate quoted by a leading local bank in Hong Kong and Singapore respectively for the HK\$ and S\$ portion. Save for the Outstanding Loans, none of any of the Thong Sia Companies has outstanding amount due to or due from its original founders, Yee Hing or any other connected persons (as defined in the Listing Rules) of the Group and their respective associates following the completion of the Agreement.

Yee Hing has undertaken (the “Yee Hing Undertaking”) to SHL for a period of three years following the date of completion of the Agreement that the sole distributorship of the Thong Sia Companies regarding the branded clocks, watches and timepieces of Seiko Watch Group in Singapore, Hong Kong and Malaysia will remain in place (unless as a result of willful default on the part of the Thong Sia Companies). In the event of a breach of the Yee Hing Undertaking, Yee Hing will pay an amount equal to the difference between the net tangible asset value of the Thong Sia Companies (with respect to the audited accounts of Thong Sia Companies, to be prepared on a combined basis, as at the completion date of the Agreement) attributable to the Sale Equity and the Sale Equity Consideration.

Assets to be acquired

Thong Sia Company (Singapore) Pte Limited was incorporated in Singapore in 1967 and is principally engaged in Singapore in the wholesaling of the branded watches, clocks and timepieces of Seiko Watch Group and optical products. As at the date of this announcement, the entire issued share capital of Thong Sia Company (Singapore) Pte Limited is owned as to 60.0% by Yee Hing and as to the balance of 40.0% by the Estate.

Thong Sia Watch Company Limited was incorporated in Hong Kong in 1996 and is principally engaged in Hong Kong in the wholesaling of the branded watches, clocks and timepieces of Seiko Watch Group. TSCL, the predecessor of Thong Sia Watch Company Limited, was established in 1972. As at the date hereof, the entire issued share capital of Thong Sia Watch Company Limited is owned as to 58.0% by Yee Hing, as to 38.0% by the Estate, as to 2.0% by Mr Wong Chue Meng’s daughter, Ms Supanee Gazeley and as to the balance of 2.0% by a third party independent of the Group and connected persons (as defined in the Listing Rules) of the Group.

Thong Sia Sdn Bhd was incorporated in Malaysia in 1982 and is principally engaged in Malaysia in the wholesaling of the branded watches, clocks and timepieces of Seiko Watch Group and optical products. As at the date of this announcement, the entire issued share capital of Thong Sia Sdn Bhd is owned as to 54.0% by Yee Hing, as to 40.4% by the Estate, as to 3.6% by two successors of an original founder of Thong Sia Sdn Bhd and as to the balance of 2% by a third party independent of the Group and connected persons (as defined in the Listing Rules) of the Group.

Despite the fact that there have been no formal distributorship agreements with Seiko Watch Group, each of the Thong Sia Companies (including the predecessor of Thong Sia Watch Company Limited) has a longstanding distributor relationship with Seiko Watch Group. The Vendors have made representations to SHL under the Agreement that, to the best of their knowledge, information and belief, each of the Thong Sia Companies is currently the sole distributor of the branded watches, clocks and timepieces of Seiko Watch Group for the relevant country in which each of them operates.

Consideration

Pursuant to the Agreement, SHL has agreed to pay HK\$55,267,775 as consideration (the "Sale Equity Consideration") for the acquisition of the Sale Equity which comprises two amounts, namely HK\$34,000,010 for the Yee Hing Sale Equity and HK\$21,267,765 for the Estate Sale Equity.

Yee Hing had acquired, for an aggregate price of HK\$34,000,010, the Yee Hing Sale Equity from the original founders (other than the Estate) and their respective successors (as the case may be) of each of the Thong Sia Companies. There is no restriction on the subsequent sale of the Yee Hing Sale Equity by Yee Hing to other parties.

On 10 August, 2005, SHL has paid to Yee Hing a refundable deposit of HK\$10.0 million which constitutes payment in part of the Sale Equity Consideration. Such deposit shall be returned to SHL with interest charges at an annual rate of 2% below the prime or best-lending rates quoted by a leading local bank in Hong Kong if the Agreement is terminated without completion for any reason (other than the fault of SHL). The balance of the Sale Equity Consideration of HK\$45,267,775, which comprises two amounts, namely HK\$24,000,010 and HK\$21,267,765 will be payable to Yee Hing and the Estate respectively on the completion date of the Agreement.

Basis of determination of the Sale Equity Consideration

The Agreement and the transactions contemplated therein including the Sale Equity Consideration of HK\$55,267,775 have been arrived at after arm's length negotiations between SHL and the Vendors. The Sale Equity Consideration and the repayment of Outstanding Loans with the associated interest charges will be funded by the Group in cash out of its internal resources.

Based on the audited accounts of each of the Thong Sia Companies for the 2 years ended 31 December 2004, the profit before taxation and extraordinary items, the net profit after taxation before extraordinary items and the net asset value of each of the Thong Sia Companies attributable to the Sale Equity are as follows:

	Thong Sia (Singapore) Pte Limited	Thong Sia Watch Company Limited	Thong Sia Sdn Bhd
Aggregate equity interest to be acquired by SHL	100.0%	96.0%	94.4%
<i>For the year ended 31 December 2004</i>			
Profit before taxation and extraordinary items attributable to the Sale Equity	S\$3,187,220 (equivalent to approximately HK\$15,171,167)	HK\$3,405,005	MYR4,477,268 (equivalent to approximately HK\$8,954,537)
Net profit after taxation before extraordinary items attributable to the Sale Equity	S\$3,187,220 (equivalent to approximately HK\$15,171,167)	HK\$2,278,147	MYR3,190,112 (equivalent to approximately HK\$6,380,224)
<i>As at 31 December 2004</i>			
Net asset value attributable to the Sale Equity	negative S\$5,112,929 (equivalent to approximately negative HK\$24,337,542)	HK\$20,391,156	MYR18,853,219 (equivalent to approximately HK\$37,706,438)
<i>For the year ended 31 December 2003</i>			
Profit before taxation and extraordinary items attributable to the Sale Equity	S\$1,025,115 (equivalent to approximately HK\$4,879,547)	HK\$1,945,480	MYR3,132,691 (equivalent to approximately HK\$6,265,383)
Net profit after taxation before extraordinary items attributable to the Sale Equity	S\$1,025,115 (equivalent to approximately HK\$4,879,547)	HK\$1,041,151	MYR2,200,395 (equivalent to approximately HK\$4,400,790)
<i>As at 31 December 2003</i>			
Net asset value attributable to the Sale Equity	negative S\$9,826,498 (equivalent to approximately negative HK\$46,774,130)	HK\$18,113,008	MYR15,603,635 (equivalent to approximately HK\$31,207,270)

The Sale Equity Consideration represents approximately 2.3 times the combined net profit after taxation before extraordinary items of the Thong Sia Companies attributable to the Sale Equity of the equivalent of approximately HK\$23,829,538 for the year ended 31 December 2004.

The Sale Equity Consideration also represents an approximately 64% premium over the combined net asset value of the Thong Sia Companies attributable to the Sale Equity of the equivalent of approximately HK\$33,760,052 as at 31 December 2004. The Board considers it to be fair and reasonable to pay a premium over the net asset value of the Thong Sia Companies attributable to the Sale Equity as the business of Thong Sia Companies is non-asset based in nature i.e. the profitability of Thong Sia Companies is not directly related to

the asset size of Thong Sia Companies. The management of Thong Sia Companies has confirmed to the Company that no dividend will be distributed by the Thong Sia Companies before completion of the Agreement.

The Board (including all independent non-executive Directors) considers the terms and conditions of the Agreement to be on normal commercial basis and are fair and reasonable and that the Agreement is in the interests of the Company and the Shareholders as a whole.

Completion

Completion of the Agreement is conditional upon the fulfillment of, amongst others, the following conditions on or before the expected completion date of 31 December 2005:

- (a) SHL having been satisfied with the results of its due diligence review of the financial, tax and legal aspects of the Thong Sia Companies;
- (b) the transactions contemplated under the Agreement, the TSCL Agreement and the Mengiwa Agreement having been approved by the Independent Shareholders at the SGM by poll; and
- (c) a probate having been granted by the relevant court in Hong Kong confirming the power of the executor in administering the Estate.

If either of the abovementioned conditions is not fulfilled on or before 31 December 2005 or such later date as the Vendors and SHL may agree, the Agreement shall cease and terminate and none of the parties thereto shall have any claim against the others save for the deposit of HK\$10.0 million with interest, which will be refunded to SHL.

REASONS FOR AND BENEFITS OF ENTERING INTO THE AGREEMENT

The Group is principally engaged in the business of watch retailing, optical wear retailing and property investment. According to the audited accounts for the year ended 31 March 2005, the turnover of the Group's timepieces retailing and distribution of in-house branded and licensee branded timepieces represented approximately 49% and 16% of the Group's turnover respectively. The Group has decided to expand its watch distribution business in order to strategically diversify into businesses that could widen the customer base and source of income of the Group which in turn will enhance the earnings of the Group in the long run. In this context, the Acquisition is in line with the business objectives of the Group.

The Directors believe that through the Acquisition the trading and operating efficiency of the Group's watch retailing business will be enhanced as a result of the integration of its wholesaling and retailing operations with respect to the selling of the Seiko branded clocks, watches and timepieces and the performance of the Group's existing watch wholesaling business in Asia will be improved by leveraging off the watch wholesaling expertise and experience of the Thong Sia Companies in Hong Kong, Singapore and Malaysia.

CONNECTED AND DISCLOSEABLE TRANSACTIONS WITH RESPECT TO THE ACQUISITION

Since (i) the Estate (through various holding companies including Yee Hing which is interested in approximately 44% of the issued share capital of the Company) is the controlling shareholder (as defined in the Listing Rules) of the Company, and (ii) Mr Anant Kanjanapas (alias Wong Chong Po) is the chairman and director of the Company, the Estate, Yee Hing and Mr Anant Kanjanapas (alias Wong Chong Po) are connected persons of the Group for the purpose of the Listing Rules. Based on the applicable size tests performed regarding the Acquisition, the relevant percentage ratios under Rule 14.07 of the Listing Rules exceed 5% but are less than 25%. The applicable percentage ratios under Rule 14A.32 of the Listing Rules are more than 2.5% and the Sale Equity Consideration is more than HK\$10 million.

Accordingly, the transactions contemplated under the Agreement constitute connected and discloseable transactions for the Company and will be subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules and also subject to the approval of the Independent Shareholders in the SGM by poll.

**(2) CONTINUING CONNECTED TRANSACTIONS FOLLOWING THE ACQUISITION
CONTINUAL PURCHASES OF OPTICAL PRODUCTS BY THONG SIA COMPANY
(SINGAPORE) PTE LIMITED AND THONG SIA SDN BHD FROM VISION PRO
GROUP**

Each of Thong Sia Company (Singapore) Pte 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. Vision Pro Group is a wholesale distributor for and licensee of several brands of optical products in Hong Kong, PRC, Singapore and Malaysia respectively. These brands of optical products are well known and suitable for the optical wear wholesaling distributorship businesses of Thong Sia Company (Singapore) Pte Limited and Thong Sia Sdn Bhd in Singapore and Malaysia respectively. Therefore, the Directors consider it to be in the interests of the Group to continue to purchase optical products from the Vision Pro Group through Thong Sia Company (Singapore) Pte Limited and Thong Sia Sdn Bhd after completion of the Agreement.

Since the Estate holds more than 30% equity interest in TSCL, TSCL 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. With the Acquisition, Thong Sia Company (Singapore) Pte Limited and Thong Sia Sdn Bhd will become a wholly-owned and a 94.4% owned subsidiary of the Company respectively. Since TSCL and Yee Hing each holds more than 30% equity interests in Vision Pro Group, Vision Pro Group is a connected person (as defined in the Listing Rules) of the Group by virtue of the fact that it is an associate of TSCL and Yee Hing which are connected persons (as defined in the Listing Rules) of the Group. Accordingly, the purchases of optical products by Thong Sia Company (Singapore) Pte Limited and Thong Sia Sdn Bhd from Vision Pro Group (the “Continual Purchases from Vision Pro Group”) will constitute continuing connected transactions for the Company upon completion of the Agreement.

Based on the audited accounts for the three years ended 31 December 2004, Thong Sia Company (Singapore) Pte Limited recorded an annual total purchases of optical products of approximately HK\$156,241, HK\$458,778 and HK\$395,495 from Vision Pro Group respectively and Thong Sia Sdn Bhd recorded an annual total purchases of optical products of approximately HK\$1,151,203, HK\$1,229,774, and HK\$881,556 from Vision Pro Group respectively.

On 1 April 2005, each of Thong Sia Company (Singapore) Pte Limited and Thong Sia Sdn Bhd has 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 1 April 2005 up to and including 31 March 2008. Under the said agreements, each of Thong Sia Company (Singapore) Pte Limited and Thong Sia Sdn Bhd will agree 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 proposes to set the maximum aggregate annual consideration for the continual purchases of optical products by Thong Sia Company (Singapore) Pte 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 31 March 2008 (the “Caps”). If such Caps are exceeded during

the term of the Continual Purchases from Vision Pro Group for the relevant financial year, 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 1 January 2002 up to and including 31 December 2004;
- (b) Vision Pro Group's current status of new licensed products development; and
- (c) the estimates by Thong Sia Company (Singapore) Pte 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.

Based on factors considered in determining the Caps, it is expected that each of the applicable percentage ratios as defined in Rule 14A.10 of the Listing Rules, will be less than 2.5% for each of the three financial years hereafter. As such, the Continual Purchases from Vision Pro Group shall be classified as continuing connected transactions (according to Rule 14A.34 of the Listing Rules) for the Company upon completion of the Agreement subject to the reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Listing Rules and are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The terms of the Continual Purchases from Vision Pro Group are based on normal commercial terms agreed after arms' length negotiations between the parties. The Board (including the independent non-executive Directors) considers that the terms of the Continual Purchases from Vision Pro Group are fair and reasonable and the Continual Purchases from Vision Pro Group is in the interests of the Company and the Shareholders as a whole.

CONTINUAL LEASING OF PREMISES BY THONG SIA COMPANY (SINGAPORE) PTE LIMITED FROM MENGIWA

Thong Sia Company (Singapore) Pte Limited has been leasing the SIN Properties (as defined below) from Mengiwa as its current office, showroom, warehouse and service centre for about 15 years. The Directors consider it to be in the interests of the Company and the Shareholders as a whole for Thong Sia Company (Singapore) Pte Limited to continue to lease the SIN Properties from Mengiwa after completion of the Agreement as long as Thong Sia Company (Singapore) Pte Limited continues to pay rent rates in line with the market rent rates for such premises so as to avoid the relocation costs which otherwise the Group might incur.

Since the Estate holds more than 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) Pte Limited will be a wholly-owned subsidiary of the Company upon completion of the Agreement, the continual leasing of the SIN Properties by Thong Sia Company (Singapore) Pte Limited from Mengiwa after completion of the Agreement will constitute continuing connected transactions for the Company.

On 3 August 2005, Thong Sia Company (Singapore) Pte Limited, as tenant has entered into a tenancy agreement (the "TSSIN Tenancy Agreement") with Mengiwa as landlord in respect of the lease of the SIN Properties. Details of the major terms of the TSSIN Tenancy Agreement are as follows:

Date: 3 August 2005

Parties: Mengiwa as landlord and Thong Sia Company (Singapore) Pte Limited as tenant

Premises leased: Units #01-01 and #04-00 of Thongsia Building, No.30 Bideford Road, Singapore, comprising a total floor area of approximately 10,289 square feet (the “SIN Properties”)

Duration of tenancy: 3 years from 1 July 2005 up to and including 30 June 2008 with an option to renew for a further term of three years at the market rent at the time of the renewal and on the same terms and conditions of this TSSIN Tenancy Agreement

Rent: S\$35,000.00 (equivalent to approximately HK\$166,600) (inclusive of management fee and air-conditioning charge) per calendar month payable in advance on the first day of each calendar month

The monthly rent and the management and air-conditioning charges 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) Pte Limited is in line with the prevailing market rent based on the independent valuations by Jones Lang Lasalle made on 15 July 2005. Accordingly, the Directors consider that the terms of the TSSIN Tenancy Agreement are fair and reasonable and the TSSIN Tenancy Agreement is in the interests of the Company and the Shareholders as a whole.

As the aggregate sum of the annual rent, management fee and air-conditioning charge payable by Thong Sia Company (Singapore) Pte Limited under the TSSIN Tenancy Agreement of S\$420,000 (equivalent to HK\$1,999,200) represents less than 2.5% of the applicable percentage ratios under Rule 14A.10 of the Listing Rules, the transactions contemplated under TSSIN Tenancy Agreement shall be classified as continuing connected transactions (according to Rule 14A.34 of the Listing Rules) for the Company upon completion of the Agreement subject to reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Listing Rules and are exempt from the independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

CONTINUAL LEASING OF PREMISES BY THONG SIA WATCH COMPANY LIMITED FROM TSICL

Thong Sia Watch Company Limited has been leasing the HK Properties (as defined below) from TSICL as its current office and service centre since 2002. The Directors consider it to be in the interests of the Company and the Shareholders as a whole for Thong Sia Watch Company Limited to continue to lease the HK Properties from TSICL after completion of the Agreement as long as Thong Sia Watch Limited continues to pay rent rates in line with the market rent rates for such premises so as to avoid the relocation costs which otherwise the Group might incur.

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 will be 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 shall constitute continuing connected transactions for the Company.

On 20 July 2005, Thong Sia Watch Company Limited, as tenant has entered into a tenancy agreement (the “TSHK Tenancy Agreement”) with TSICL as landlord in respect of the lease of the HK Properties. Details of the major terms of the TSHK Tenancy Agreement are as follows:

Date: 20 July 2005

Parties: TSICL as landlord and Thong Sia Watch Company Limited as tenant

Premises leased:	Units A2, E2 and E3 on 2nd floor of Star House, No.3 Salisbury Road, Tsimshatsui, Kowloon, Hong Kong, comprising a total floor area of approximately 5,168 square feet (the “HK Properties”)
Duration of tenancy:	3 years from 1 July 2005 up to and including 30 June 2008 with an option to renew for a further term of three years at a new rent to be agreed between the landlord and the tenant and both landlord and tenant can give 6 months’ prior notice to terminate the TSHK Tenancy Agreement after 6 months from the commencement of such tenancy agreement
Rent:	HK\$119,080 (exclusive of management fee, air-conditioning charge, security charge and government rate) per calendar month payable in advance on the first day of each calendar month

The monthly rent 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 is in line with the open market rent based on the independent valuations by C S Surveyors made on 30 June 2005. Accordingly, the Directors consider that the terms of the TSHK Tenancy Agreement are fair and reasonable and the TSHK Tenancy Agreement is in the interests of the Company and the Shareholders as a whole.

As the annual rent payable by Thong Sia Watch Company Limited under the TSHK Tenancy Agreement of HK\$1,428,960 represents less than 2.5% of the applicable percentage ratios under Rule 14A.10 of the Listing Rules, the transactions contemplated under TSHK Tenancy Agreement shall be classified as continuing connected transactions (according to Rule 14A.34 of the Listing Rules) for the Company upon completion of the Agreement subject to the reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Listing Rules and are exempt from the independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

(3) 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

PROVISION OF THE OUTSTANDING LOANS BY TSCL AND MENGIWA

TSCL and Mengiwa have granted loans on a non-secured basis to Thong Sia Company (Singapore) Pte Limited over the past 3 years to help finance its general funding needs. Based on the audited accounts of Thong Sia Company (Singapore) Pte Limited as at 31 December 2004, the loans granted by TSCL and Mengiwa in aggregate amounted to S\$9,905,518 (equivalent to approximately HK\$47,150,266) and Thong Sia Company (Singapore) Pte Limited had a net deficit of S\$5,112,929 (equivalent to approximately negative HK\$24,337,542) as at 31 December 2004. The Directors are of the opinion that to the best of their knowledge, information and belief, the interest charges associated with the Outstanding Loans to be borne by Thong Sia Company (Singapore) Pte Limited are lower than the prevailing interest charges on similar amount of non-secured loans that the Group could obtain from financial institutions in Hong Kong and Singapore. The Directors consider it to be beneficial to Thong Sia Company (Singapore) Pte Limited for it to maintain the Outstanding Loans after completion of the Agreement given the favourable interest rates and in order to reduce the immediate cash outflow of it.

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) Pte 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) Pte 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) Pte 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 entitled "THE TSCL AGREEMENT" and "THE MENGIWA AGREEMENT".

CONTINUAL PROVISION OF THE CORPORATE GUARANTEE AND MORTGAGE ASSETS BY MENGIWA

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) Pte Limited since 1997 to help finance its general funding needs. The Directors are of the opinion that to the best of their knowledge, information and belief, the interest charges of such banking facilities at annual rates of 0% to 0.5% above the prime rate quoted by such third party bank in respect of the S\$2.0 million (equivalent to approximately HK\$9,520,000) overdraft facilities and 1% above the costs of funds of that lending bank in respect of the S\$2.0 million (equivalent to approximately HK\$9,520,000) revolving loan facilities are below the prevailing normal market rates for similar amount of non-secured loans that the Group could obtain from financial institutions in Singapore. As such, the Directors consider the terms of such banking facilities to be favourable to Thong Sia Company (Singapore) Pte Limited and consider it to be beneficial to Thong Sia Company (Singapore) Pte Limited for it to maintain the said banking facilities after completion of the Agreement.

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) Pte 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) Pte 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.

THE TSCL AGREEMENT

Date: 10 August, 2005

- Parties: (1) TSCL as lender of the HK\$ portion of the Outstanding Loans;
- (2) Thong Sia Company (Singapore) Pte Limited as borrower of the HK\$ portion of the Outstanding Loans; and
- (3) SHL as guarantor for the repayment obligations of Thong Sia Company (Singapore) Pte Limited with respect to the HK\$ portion of the Outstanding Loans owed to TSCL.

Subject matter

In connection with the Agreement, TSCL has agreed to continue to provide its HK\$ portion of the Outstanding Loans to Thong Sia Company (Singapore) Pte 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 paragraph above entitled "Transactions" and pursuant to which SHL has agreed to guarantee the repayment obligations of Thong Sia Company (Singapore) Pte Limited with respect to the HK\$ portion of the Outstanding Loans owed to TSCL.

If Thong Sia Company (Singapore) Pte 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 shall become effective immediately after completion of the Agreement until the HK\$ portion of Outstanding Loans has been fully repaid.

Condition precedent

The TSCL Agreement and the transactions contemplated therein are interconditional upon, amongst others, the approval of the Agreement by the Independent Shareholders at the SGM by poll.

THE MENGIWA AGREEMENT

Date: 10 August, 2005

- Parties: (1) Mengiwa as lender of the S\$ portion of the Outstanding Loans and provider of the Corporate Guarantee and Mortgage Assets;
- (2) Thong Sia Company (Singapore) Pte Limited as borrower of the S\$ portion of the Outstanding Loans and beneficiary of the Corporate Guarantee and Mortgage Assets; and
- (3) SHL as guarantor for the repayment obligations of Thong Sia Company (Singapore) Pte 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 has agreed to continue to (i) provide its S\$ portion of the Outstanding Loans to Thong Sia Company (Singapore) Pte 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) Pte 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 entitled "Transactions" and the provision of the Corporate Guarantee and Mortgage Assets by Mengiwa as set out in the paragraph above entitled "CONTINUAL PROVISION OF THE CORPORATE GUARANTEE AND MORTGAGE ASSETS BY MENGIWA". Pursuant to the Mengiwa Agreement, SHL has agreed to (i) guarantee the repayment obligations of Thong Sia Company (Singapore) Pte 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) Pte 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 has to indemnify 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.

Duration

The Mengiwa Agreement shall become 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.

Condition precedent

The Mengiwa Agreement and the transactions contemplated therein are interconditional upon, amongst others, the approval of the Agreement by the Independent Shareholders at the SGM by poll.

CONNECTED AND DISCLOSEABLE TRANSACTIONS

SHL is an 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) Pte 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) Pte Limited (together with the SHL Indemnity provided by SHL to Mengiwa in respect thereof) shall be financial assistance (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 assistance and shall 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 shall be aggregated. Based on the applicable size tests performed regarding the provision of the Outstanding Loans and the Corporate Guarantee and Mortgage Assets, the relevant percentage ratio under Rule 14.07 of the Listing Rules exceeds 5% but is less than 25%. Accordingly and pursuant to Rule 14A.63 of the Listing Rules, the transactions contemplated under the provision of the Outstanding Loans together with the SHL Guarantee in respect thereof and the continual provision of the Corporate Guarantee and Mortgage Assets together with the SHL Indemnity in respect thereof shall constitute connected and discloseable transactions for the Company and will be subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules and also subject to the approval of the Independent Shareholders in the SGM by poll.

The Directors are of the view that the provision of Outstanding Loans together with the SHL Guarantee provided by SHL in respect thereof and the continual provision of the Corporate Guarantee and Mortgage Assets together with the SHL Indemnity provided by SHL in respect thereof upon completion of the Agreement are for the benefit of the Company and the Shareholders as a whole and are on normal commercial terms. The Directors consider that the TSCL Agreement and the Mengiwa Agreement have been entered into on normal commercial terms after arm's length negotiations between the parties. The Directors are also of the view that the terms of TSCL Agreement and Mengiwa Agreement are fair and reasonable and they are in the interests of the Company and the Shareholders as a whole.

(4) CHANGES IN THE EXISTING CONTINUING CONNECTED TRANSACTIONS FOLLOWING THE ACQUISITION

Purchases of timepieces by the Group from Thong Sia Companies

Before completion of the Agreement, the Estate holds more than 30% equity interests in each of the Thong Sia Companies. As such, each of the Thong Sia Companies is a connected person (as defined in the Listing Rules) of the Group by virtue of the fact that each of the Thong Sia Companies is an associate of the Estate which is a connected person (as defined in the Listing Rules) of the Group. The Group has been purchasing timepieces on a continuing basis from Thong Sia Companies in the Group's ordinary and usual course of business and such purchases are currently classified as continuing connected transactions for the Company. Based on the Group's consolidated audited accounts for the year ended 31 March 2005, timepieces purchased by the Group from the Thong Sia Companies amounted to approximately HK\$41.0 million in the said period.

The Group will continue to make purchases of timepieces from the Thong Sia Companies and the Thong Sia Companies will no longer be connected persons (as defined in the Listing Rules) of the Group upon completion of the Agreement. As such, the continuing connected transactions regarding the purchases of timepieces by the Group from Thong Sia Companies will become intra-group transactions and will no longer constitute connected transactions for the Company upon completion of the Agreement.

Purchases of optical products by the Group from Thong Sia Company (Singapore) Pte Limited and Thong Sia Sdn Bhd

The Group has been purchasing optical products on a continuing basis in its ordinary and usual course of business, from Thong Sia Company (Singapore) Pte Limited and Thong Sia Sdn Bhd. Since Thong Sia Company (Singapore) Pte Limited and Thong Sia Sdn Bhd are connected persons (as defined in the Listing Rules) of the Group, such purchases are currently classified as continuing connected transactions for the Company. Based on the Group's consolidated audited accounts for the year ended 31 March 2005, optical products purchased by the Group from the Thong Sia Company (Singapore) Pte Limited and Thong Sia Sdn Bhd amounted to approximately HK\$0.6 million in the said period.

Upon completion of the Agreement, Thong Sia Company (Singapore) Pte Limited and Thong Sia Sdn Bhd will no longer be connected persons (as defined in the Listing Rules) of the Group. In this connection, the purchases of optical products by the Group from Thong Sia Company (Singapore) Pte Limited and Thong Sia Sdn Bhd will become intra-group transactions and will no longer constitute connected transactions for the Company upon completion of the Agreement.

(5) INDEPENDENT SHAREHOLDERS' APPROVAL AND DESPATCH OF CIRCULAR

The Independent Board Committee comprising Mr Kwong Yiu Chung and Mr Wu Chun Sang, has been formed by the Board to advise the Independent Shareholders in respect of the transactions contemplated under the Agreement, the TSCL Agreement and the Mengiwa

Agreement. An independent financial adviser will be appointed to advise the Independent Board Committee and Independent Shareholders in respect of the transactions contemplated under the Agreement, the TSCL Agreement and the Mengiwa Agreement; and the terms of the Agreement, the TSCL Agreement and the Mengiwa Agreement.

A circular containing information regarding, amongst other matters, the Agreement, the TSCL Agreement, the Mengiwa Agreement, the Yee Hing Undertaking, the continuing connected transactions following the Acquisition, the advice from the Independent Board Committee to the Independent Shareholders, the advice of the independent financial adviser in connection with the Agreement, the TSCL Agreement and the Mengiwa Agreement and the notice of the SGM will be despatched to the Shareholders as soon as practical. The Estate, Yee Hing and Mr Anant Kanjanapas (alias Wong Chong Po) and their respective associates (as defined in the Listing Rules) will abstain from voting at the SGM.

GENERAL

The Group is principally engaged in the business of watch retailing, optical wear retailing and property investment.

Mengiwa is principally engaged in investment property leasing.

SHL is principally engaged in the business of investment holding.

TSCL is principally engaged in investment property leasing and investment holding.

TSICL is principally engaged in investment property leasing.

Vision Pro Group is principally engaged in the distribution of licensed optical products in Asia.

Yee Hing is principally engaged in investment holding.

DEFINITIONS

“Agreement”	the sale and purchase agreement dated 10 August, 2005 entered into between SHL and Yee Hing and Anant Kanjanapas (alias Wong Chong Po, the chairman and director of the Company) acting in his capacity as the sole executor of the Estate
“associate”	has the meaning as given to it in the Listing Rules
“Board”	The board of Directors
“Company”	STELUX Holdings International Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“Directors”	the directors (including the independent non-executive directors) of the Company
“Estate”	the estate of Mr Wong Chue Meng, which holds approximately 70% of the issued share capital of the Company (through various holding companies including Yee Hing which is interested in approximately 44% of the issued share capital of the Company) as at the date hereof

“Estate Sale Equity”	the equity interest of 40.0%, 38.0% and 40.4% in Thong Sia Company (Singapore) Pte Limited, Thong Sia Watch Company Limited and Thong Sia Sdn Bhd respectively originally held by the Estate and to be sold by the Estate to SHL under the Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent board committee of the Company comprising Mr Kwong Yiu Chung and Mr Wu Chun Sang, has been formed by the Board to advise the Independent Shareholders in respect of the Agreement
“Independent Shareholders”	the Shareholders other than Yee Hing, the Estate and Mr Anant Kanjanapas (alias Wong Chong Po) and their respective associates (as defined in the Listing Rules)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mengiwa”	Mengiwa Private Limited, a company incorporated in Singapore and is owned as to 55% by the Estate, as to 2.5% by Mr Wong Chue Meng’s daughter, Ms Swatsri Kanjanapas and as to the balance of 42.5% by third parties independent of the Group and connected persons (as defined in the Listing Rules) of the Group
“Mengiwa Agreement”	the agreement dated 10 August, 2005 entered into between SHL, Thong Sia Company (Singapore) Pte Limited and Mengiwa
“Sale Equity”	the aggregate equity interest in the Thong Sia Companies to be acquired by SHL under the Agreement, comprising the Yee Hing Sale Equity and the Estate Sale Equity
“Seiko Watch Group”	the business subsidiaries of Seiko Corporation, which was established since 1881 and is a listed company in Japan, including principally Seiko Watch Corporation (including its predecessor) and Seiko Clock Inc., that are engaged in the sale and marketing of several Japanese branded watches, clocks and timepieces including Seiko, Credor, Pulsar, Alba and Lorus
“SGM”	a special general meeting of the Company to be convened to approve the Agreement and the transactions contemplated thereunder
“SHL”	Stelux Holdings Limited, an indirect wholly-owned subsidiary of the Company
“Shares”	shares of par value of HK\$0.10 each in the issued share capital of the Company
“Shareholders”	holders of the Shares

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“TSCL”	Thong Sia Company Limited, a company incorporated in Hong Kong and is owned as to 38% by the Estate, as to 2% by Ms Supanee Gazeley, as to 58% by the four original founders (including their successors) of the Thong Sia Companies and as to the balance of 2% by a third party independent of the Group and connected person (as defined in the Listing Rules) of the Group
“TSCL Agreement”	the agreement dated 10 August, 2005 entered into between, amongst others, SHL, Thong Sia Company (Singapore) Pte Limited and TSCL
“TSICL”	Thong Shing Investment Company Limited, a company incorporated in Hong Kong, and is a wholly-owned subsidiary of TSCL
“Thong Sia Companies”	Thong Sia Company (Singapore) Pte Limited, Thong Sia Watch Company Limited and Thong Sia Sdn Bhd
“PRC”	People’s Republic of China
“Vendors”	Yee Hing and Anant Kanjanapas (alias Wong Chong Po, the chairman and director of the Company) acting in the capacity of the sole executor of the Estate
“Vision Pro Group”	Vision Pro Trading Company Limited (formerly known as Pro Vision Trading Company Limited), a company incorporated in Hong Kong, and its subsidiaries. Vision Pro Trading Company Limited is owned as to 60% indirectly by Yee Hing and as to 40% by TSCL
“Yee Hing”	Yee Hing Company Limited, a company incorporated under the laws of Hong Kong, and the substantial shareholder (as defined in the Listing Rules) of the Company. Since Yee Hing and the Estate are the controlling shareholders (as defined in the Listing Rules) of the Company, Yee Hing is a connected person (as defined in the Listing Rules) of the Group
“Yee Hing Sale Equity”	the equity interest of 60.0%, 58.0% and 54.0% in Thong Sia Company (Singapore) Pte Limited, Thong Sia Watch Company Limited and Thong Sia Sdn Bhd respectively recently acquired by Yee Hing and to be sold by Yee Hing to SHL under the Agreement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“MYR”	Malaysian Ringgit, the lawful currency of Malaysia
“S\$”	Singapore dollars, the lawful currency of Singapore
“%”	Percentage

Unless otherwise stated, the conversion of S\$ into HK\$ is based on the exchange rate of S\$1.00 = HK\$4.76 and the conversion of MYR into HK\$ is based on the exchange rate of MYR1.00 = HK\$2.00 Such conversion should not be construed as a representation that the amount in question has been, could have been or could be converted at any particular rate or at all.

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

Hong Kong, 10 August, 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*) and Wu Chun Sang (*independent*)

Please also refer to the published version of this announcement in The Standard.