

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 OF RESULTS FOR THE YEAR ENDED 31ST MARCH 2005

The Directors of the Company have pleasure in announcing the audited results of the Group for the year ended 31st March 2005 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2005

	2005 HK\$'000	As restated 2004 HK\$'000
Turnover (<i>Note 2</i>)	1,421,571	1,218,024
Cost of sales	(500,607)	(441,344)
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Gross profit	920,964	776,680
Other revenues	15,703	18,342
Selling expenses	(610,879)	(516,906)
General and administrative expenses	(173,966)	(156,559)
Other operating expenses	(80,015)	(60,599)
Other operating income	154,330	58,380
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Operating profit before financing (<i>Note 3</i>)	226,137	119,338
Finance costs	(19,035)	(27,120)
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Profit before taxation	207,102	92,218
Taxation charge (<i>Note 4</i>)	(36,082)	(9,505)
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* For identification purpose only

Profit after taxation	171,020	82,713
Minority interests	—	—
	<u>171,020</u>	<u>82,713</u>
Profit attributable to shareholders	<u>171,020</u>	<u>82,713</u>
Dividend (<i>Note 5</i>)	<u>33,297</u>	<u>18,867</u>
Earnings per share (<i>Note 6</i>)	<i>HK cents</i>	<i>HK cents</i>
– basic	18.05	8.80
– diluted	<u>18.01</u>	<u>8.80</u>

CONSOLIDATED BALANCE SHEET
AT 31ST MARCH 2005

	2005 <i>HK\$'000</i>	As restated 2004 <i>HK\$'000</i>
Non-current assets		
Fixed assets (<i>Note 7</i>)	1,029,850	879,659
Investment securities	4,299	4,299
Trademarks	17,052	19,160
Deferred tax assets	32,875	26,910
	<u>1,084,076</u>	<u>930,028</u>
Current assets		
Stocks	388,849	349,385
Debtors and prepayments	292,830	344,794
Marketable securities	83	74
Bank balances and cash (<i>Note 8</i>)	64,779	53,037
	<u>746,541</u>	<u>747,290</u>
Current liabilities		
Creditors and accruals	284,436	277,181
Loans from a shareholder (<i>Note 9</i>)	–	3,892
Loans from a director (<i>Note 10</i>)	8,648	–
Taxation payable	15,770	11,616
Current portion of long term liabilities	23,465	57,278
Bank overdrafts and short term loans		
Secured	141,058	185,089
Unsecured	63,595	49,280
	<u>536,972</u>	<u>584,336</u>
Net current assets	<u>209,569</u>	<u>162,954</u>
Total assets less current liabilities	<u>1,293,645</u>	<u>1,092,982</u>

Financed by:

Share capital	95,134	94,334
Reserves	844,529	709,268
Proposed final dividend	23,784	18,867
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Shareholders' funds	963,447	822,469
Minority interests	2,494	1,606
Long term liabilities (<i>Note 11</i>)	279,719	250,269
Deferred tax liabilities	47,985	18,638
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	1,293,645	1,092,982

Notes:—

1. Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). They have been prepared under the historical cost convention basis, except that, as disclosed in the accounting policies below, investment properties and marketable securities are stated at fair value.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods commencing on or after 1st January 2005. In the current year, the Group has chosen to adopt Hong Kong Accounting Standard No. 40 (“HKAS 40”) “Investment Property” and Hong Kong Accounting Standard Interpretation No. 21 “Income Taxes-Recovery of Revalued Non-Depreciable Assets” (“HKAS-Int 21”) earlier in the accounts for the year ended 31st March 2005.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values are recorded in the profit and loss account as part of other operating income. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the profit and loss account. Any subsequent increases were credited to the profit and loss account up to the amount previously charged.

As at 31st March 2004, the valuation of investment properties was less than their original costs and the revaluation deficits had already been charged to the profit and loss account in prior years and there was no balance in the investment properties revaluation reserve. Consequently, no prior year adjustment on the retained earnings and investment properties revaluation reserve is required upon adoption of HKAS 40.

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

The adoption of HKAS-Int 21 resulted in a decrease in accumulated losses by HK\$2,110,000 and HK\$4,059,000 at 1st April 2004 and 2003, respectively. Deferred tax liabilities at 31st March 2004 has been decreased by HK\$2,110,000 and tax charge for the year ended 31st March 2004 has been increased by HK\$1,949,000.

For the other new HKFRSs, the Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

2004 (As restated)

	Retail and trading						Group HK\$'000
	Watch HK\$'000	Optical HK\$'000	Hipo.fant HK\$'000	Property HK\$'000	Investment HK\$'000	Eliminations HK\$'000	
Turnover	785,670	313,313	80,568	48,097	1,113	(10,737)	1,218,024
Segment results	59,315	14,395	(13,677)	90,634	1,113		151,780
Net corporate expenses							(32,442)
Operating profit before financing							119,338
Finance costs							(27,120)
Profit before taxation							92,218
Taxation charge							(9,505)
Profit after taxation							82,713
Minority interests							-
Profit attributable to shareholders							82,713
Segment assets	518,450	119,172	42,098	908,051	9,600	-	1,597,371
Unallocated assets							79,947
Total assets							1,677,318
Segment liabilities	165,075	62,286	7,327	30,093	5,038	-	269,819
Unallocated liabilities							583,424
Total liabilities							853,243

Secondary reporting format – geographical segments

	2005		2004	
	Turnover	Segment results	Turnover	Segment results
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	774,592	193,300	665,768	88,019
South East and Far East Asia	415,937	54,139	330,524	42,187
Europe	168,346	14,981	185,737	24,804
North America	21,738	9,689	13,624	(2,803)
Mainland China	40,958	(3,991)	22,371	(427)
	<u>1,421,571</u>	<u>268,118</u>	<u>1,218,024</u>	<u>151,780</u>

3. Operating profit before financing

	2005	2004
	HK\$'000	HK\$'000
Operating profit before financing is stated after charging:		
Depreciation		
Owned fixed assets	54,896	49,633
Leased fixed assets	548	649
Amortisation charge of trademarks (included in other operating expenses)	2,378	2,405
Loss on disposal of fixed assets	96	221
Provision for stock obsolescence and write-offs		
Hipo.fant (note (a))	16,962	1,015
adidas (note (b))	9,201	4,694
Others	12,105	14,313
Provision for impairment of fixed assets of Poco Hippo business (included in other operating expenses)	<u>1,162</u>	<u>–</u>
and after crediting:		
Dividend income for unlisted investments	1,195	1,084
Interest income	6,872	7,033
Surplus on revaluation of investment properties	154,330	25,500
Write-back of impairment of land and buildings	–	2,800
Compensation received from arbitration (note (c))	<u>–</u>	<u>30,080</u>

Notes:

- (a) The Board has resolved on 14th July 2005 to close the Hipofant business and the stocks have been accordingly written down to their net realisable value.
- (b) The licence in respect of adidas will be terminated by December 2005 and the stocks have been accordingly written down to their net realisable value.
- (c) As disclosed in note 6 to the 2004 Annual Accounts, the Group was entitled to counter-claim liquidated damages and other costs or losses from the contractor for Stelux House. The arbitrator awarded in favour of the Group in March 2004 and compensation of HK\$30,080,000 was received from the contractor.

4. Taxation

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

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

	2005	As restated
	<i>HK\$'000</i>	<i>2004</i>
		<i>HK\$'000</i>
Current taxation		
Hong Kong profits tax	(56)	(70)
Overseas profits tax	(10,777)	(3,875)
Under provisions in respect of prior years	(1,654)	(1,340)
	<hr/>	<hr/>
	(12,487)	(5,285)
Deferred taxation	(23,595)	(4,220)
	<hr/>	<hr/>
Taxation charge	(36,082)	(9,505)

5. Dividends

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interim, paid, of HK\$0.01 (2004: nil) per ordinary share	9,513	–
Final, proposed, of HK\$0.025 (2004: HK\$0.02) per ordinary share	<u>23,784</u>	<u>18,867</u>
	<u>33,297</u>	<u>18,867</u>

At a meeting held on 14th July 2005, the Directors proposed a final dividend of HK\$0.025 (2004: HK\$0.02) per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ended 31st March 2006.

6. Earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$171,020,000 (2004: HK\$82,713,000, as restated).

The basic earnings per share is based on the weighted average number of 947,356,461 shares (2004: 939,566,798 shares) in issue during the year. The diluted earnings per share is based on 949,531,131 shares (2004: 939,630,798 shares) which is the weighted average number of shares in issue during the year plus the weighted average number of 2,174,670 shares (2004: 64,000 shares) deemed to be issued at no consideration if all outstanding options had been exercised.

7. Fixed assets

	Land and buildings <i>HK\$'000</i>	Investment properties <i>HK\$'000</i>	Equipment and others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Group				
Cost or valuation				
At 31st March 2004	383,919	558,020	325,303	1,267,242
Changes in exchange rates	1,015	–	1,628	2,643
Additions	5,649	–	46,955	52,604
Disposals	(1,820)	–	(23,735)	(25,555)
Revaluation surplus	–	154,330	–	154,330
	<u>388,763</u>	<u>712,350</u>	<u>350,151</u>	<u>1,451,264</u>
At 31st March 2005	<u>388,763</u>	<u>712,350</u>	<u>350,151</u>	<u>1,451,264</u>
Accumulated depreciation and impairment				
At 31st March 2004	132,267	–	255,316	387,583
Changes in exchange rates	351	–	1,209	1,560
Charge for the year	10,938	–	44,506	55,444
Disposals	(957)	–	(23,378)	(24,335)
Impairment	–	–	1,162	1,162
	<u>142,599</u>	<u>–</u>	<u>278,815</u>	<u>421,414</u>
At 31st March 2005	<u>142,599</u>	<u>–</u>	<u>278,815</u>	<u>421,414</u>
Net book value				
At 31st March 2005	<u>246,164</u>	<u>712,350</u>	<u>71,336</u>	<u>1,029,850</u>
At 31st March 2004	<u>251,652</u>	<u>558,020</u>	<u>69,987</u>	<u>879,659</u>

The analysis of cost or valuation of the above assets as at 31st March 2005 is as follows:

	Land and building <i>HK\$'000</i>	Investment properties <i>HK\$'000</i>	Equipment and others <i>HK\$'000</i>	Total <i>HK\$'000</i>
At cost	388,763	–	350,151	738,914
At 2005 professional valuation	–	712,350	–	712,350
	<u>388,763</u>	<u>712,350</u>	<u>350,151</u>	<u>1,451,264</u>

The analysis of cost or valuation of the above assets as at 31st March 2004 is as follows:

	Land and building <i>HK\$'000</i>	Investment properties <i>HK\$'000</i>	Equipment and others <i>HK\$'000</i>	Total <i>HK\$'000</i>
At cost	383,919	–	325,303	709,222
At 2004 professional valuation	–	558,020	–	558,020
	<u>383,919</u>	<u>558,020</u>	<u>325,303</u>	<u>1,267,242</u>

Investment properties of the Group were valued on the open market value basis at 31st March 2005 by Jones Lang LaSalle Limited, independent property valuer. All other fixed assets are stated at cost less accumulated depreciation and impairment provision, if any.

- (a) The Group's interests in investment properties and other properties at their net book values, are analysed as follows:

	Group	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Hong Kong:		
Medium term leases (10 – 50 years)	847,993	698,122
Overseas:		
Freehold	51,379	52,239
Medium term leases (10 – 50 years)	44,149	49,946
Short term leases (under 10 years)	14,993	9,365
	<u>958,514</u>	<u>809,672</u>

- (b) At 31st March 2005, certain of the Group's land and buildings amounting to HK\$165,849,000 (2004: HK\$174,616,000) and investment properties amounting to HK\$711,100,000 (2004: HK\$557,000,000) were pledged to secure banking facilities granted to the Group.
- (c) The carrying amount of the other properties would have been HK\$260,318,000 (2004: HK\$265,806,000) had they been stated at cost less accumulated depreciation.
- (d) At 31st March 2005, the net book value of fixed assets held under finance leases amounted to HK\$886,000 (2004: HK\$925,000).

8. Bank balances and cash

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Restricted balances	–	2,024	–	–
Unrestricted balances	64,779	51,013	10	2
	<u>64,779</u>	<u>53,037</u>	<u>10</u>	<u>2</u>

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

9. Loans from a shareholder

The loans, which were provided by the estate of Mr Wong Chue Meng and were unsecured, interest free and had no fixed terms of repayment, were fully repaid during the year.

10. Loans from a director

(a) The Hong Kong Dollar loan of HK\$1,101,000 is unsecured, interest-bearing at 1.5% per annum, roll-over on monthly basis and repayable at one month notice given by the director.

(b) The Thai Baht loan is unsecured, interest-bearing at 6.75% per annum, repayable in May 2005 and was renewed for another six months to mature in November 2005.

11. Share capital

	Number of shares of HK\$0.1 each	Nominal value HK\$'000
<i>Authorised:</i>		
At 31st March 2004 and 2005	<u>1,600,000,000</u>	<u>160,000</u>
<i>Issued and fully paid:</i>		
At 1st April 2003	936,340,023	93,634
Issue of shares (<i>note(i)</i>)	<u>7,000,000</u>	<u>700</u>
At 31st March 2004	<u>943,340,023</u>	<u>94,334</u>
At 1st April 2004	943,340,023	94,334
Issue of shares (<i>note(i)</i>)	<u>8,000,000</u>	<u>800</u>
At 31st March 2005	<u>951,340,023</u>	<u>95,134</u>

On 25th June 1997, a share option scheme for the executive directors and employees of the Company and its subsidiary companies (the “Scheme”) was approved and adopted by the shareholders pursuant to which the directors were authorised to grant options to executive directors and employees of the Company or its subsidiary companies to subscribe for shares of the Company for a period of ten years. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 5% of the total shares in issue. Movements in the number of share options outstanding during the year are as follows:

	Number of options	
	2005	2004
At beginning of year	8,000,000	16,000,000
Exercised (<i>note (a)</i>)	(8,000,000)	(7,000,000)
Lapsed	–	(1,000,000)
	<u> </u>	<u> </u>
At end of year (<i>note (b)</i>)	<u> </u>	<u>8,000,000</u>

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

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Ordinary share capital – at par	800	700
Share premium	1,184	350
	<u> </u>	<u> </u>
Proceeds	<u>1,984</u>	<u>1,050</u>

Notes:

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

– 25th September 2003	–	330
– 2nd October 2003	–	295
– 3rd October 2003	–	1,425
	<u> </u>	<u> </u>
– 24th September 2004	2,700	–
– 27th September 2004	1,140	–
– 30th September 2004	570	–
	<u> </u>	<u> </u>

- (b) No share options were outstanding at 31st March 2005. As at 31st March 2004, share options outstanding had the following terms:

Expiry date	Exercise price HK\$	Number of options		Vested percentage	
		2005	2004	2005	2004
Directors 16th January 2005	0.248	–	8,000,000	–	100%

12. Long term liabilities

	Note	Group	
		2005 HK\$'000	2004 HK\$'000
Bank loans, secured	(a)	290,787	268,860
Loan from a related company	(b)	11,580	24,580
Loan from a director		–	13,444
Obligations under finance leases	(c)	817	663
		<u>303,184</u>	<u>307,547</u>
Amount payable within one year included under current liabilities		<u>(23,465)</u>	<u>(57,278)</u>
		<u>279,719</u>	<u>250,269</u>

- (a) The bank loans are repayable as follows:

Not exceeding one year	11,617	19,025
More than one year, but not exceeding two years	14,242	239,211
More than two years, but not exceeding five years	207,728	10,624
More than five years	57,200	–
	<u>290,787</u>	<u>268,860</u>

- (b) The related company is Active Lights Company Limited, a subsidiary company of Yee Hing Company Limited, the ultimate holding company. The loan is unsecured, bears interest at prime rate less 2% (2004: Prime rate) per annum and wholly repayable within one year (2004: wholly repayable on or before 1st April 2004).

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

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Not exceeding one year	311	270
More than one year, but not exceeding two years	300	166
More than two years, but not exceeding five years	342	320
More than five years	–	40
	<hr/>	<hr/>
	953	796
Future finance charges on finance leases	(136)	(133)
	<hr/>	<hr/>
Present value of finance lease liabilities	817	663

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
The present value of finance lease liabilities is as follows:		
Not exceeding one year	268	229
More than one year, but not exceeding two years	253	138
More than two years, but not exceeding five years	296	262
More than five years	–	34
	<hr/>	<hr/>
	817	663

13. Reserves

	Group		Company	
	As restated		As restated	
	2005	2004	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Contributed surplus	–	2,848,462	–	4,085,186
Share premium	1,977	793	1,977	793
Retained earnings/ (accumulated losses)	866,336	(2,121,120)	350,769	(3,702,477)
	<u>868,313</u>	<u>728,135</u>	<u>352,746</u>	<u>383,502</u>

14. Contingent liabilities

	Group		Company	
	2005	2004	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
(a) Guarantees to secure banking facilities for subsidiary companies	–	–	676,993	768,910
Other guarantees for subsidiary companies	–	–	2,409	2,374
	<u>–</u>	<u>–</u>	<u>2,409</u>	<u>2,374</u>
(b) Bills discounted	<u>6,796</u>	<u>5,448</u>	<u>–</u>	<u>–</u>

MANAGEMENT DISCUSSION AND ANALYSIS

The Group reported a 16% increase in turnover, from HK\$1,218 million last year compared to HK\$1,421 million this year. This year the Group is pleased to announce a profit attributable to shareholders of HK\$171 million compared to a profit of HK\$83 million last year (as restated), a year on year increase of 107%.

The Directors recommend the payment of a final dividend of HK\$0.025 (2004: HK\$0.02) per ordinary share. Total dividends paid and proposed for the financial year ended 31st March 2005 was HK\$0.035 (2004: HK\$0.02).

Watch Business

Retailing – City Chain

Our watch retailing business reported a 61% increase in pre-tax profits, from HK\$49 million last year to HK\$78 million before provision for adidas stocks of HK\$9 million this year. Turnover was also up by 24% to HK\$695 million.

Several factors contributed to these pleasing results.

- Improving gross margins. Successful marketing of the Group's high margin watch brands, together with an effective sales staff incentive scheme helped to drive turnover and improve gross margins.
- Expansion in the region.
- Improved Asian economies, and in particular, the strong recovery in the Hong Kong retail sector.

Generally, our subsidiaries reported double digit growth in turnover and profits either meeting or exceeding our expectations. Shop expansion continued to be in line with our targets, with Malaysia and Thailand growing at the fastest pace.

City Chain Hong Kong was a major profit contributor, reporting pre-tax profits of HK\$44 million, an increase of 106% from last year. As anticipated, Hong Kong landlords sought increased rentals on lease renewals.

The successful advertising campaign for “Solvil et Titus” continued to run during the year, contributing to increased watch sales. Subsequent to the period under review, a leading artiste was signed up to promote the Group’s Swiss watch brand, “CYMA”, which retails at City Chain stores in Asia.

Our mid-term targets for City Chain are:

- To maintain double digit growth in turnover and profits for the FY 2005/06
- To accelerate growth of our non-Hong Kong business so that it comprises more than 60% of City Chain’s turnover by FY2007/08.
- To further improve gross margins in order to neutralize the negative effects of escalating rentals and operating costs.

Export & Trading

As anticipated, the ending of the adidas watch partnership impacted on Q4 sales dragging down turnovers. Our US distribution subsidiary reported a small loss and pre-tax profits were down 11% at our HK export subsidiary to HK\$12 million. This was due to the lower turnover and additional investment made in re-building the Group’s own brand ellese. The Everlast watch was launched in Basel 2005 with a good response. Moreover, other watch brand licensing arrangements are under negotiation.

Due to the early termination of the adidas licence at the end of December 2005, the stocks have been written down to their net book value and a stock provision of HK\$9 million was charged to the profit and loss account this year.

Optical Business

Retailing – Optical 88

Our optical retailing business returned much better results with pre-tax profits of HK\$23 million compared to HK\$9 million last year, a year on year increase of nearly 140%. Turnover was also up by 23% to HK\$386 million. Hong Kong and Thailand were major profit contributors reporting profits of HK\$17 million and HK\$7 million respectively. Likewise, the strong recovery in the Hong Kong retail sector, better gross margins and aggressive opening of shops contributed to the positive results.

Optical 88 Hong Kong, continued to increase its market share during the year by opening more shops and improving the performance of existing shops. Staff incentive schemes; enhanced deployment of staff to high volume shops; and bringing in high margin exclusive agency brands all contributed to the increased turnover and profits.

Our mid-term targets for Optical 88 are:

- To maintain a double digit growth in turnover and profits for FY2005/06.
- To accelerate growth of our non-Hong Kong business so that it comprises no less than 50% of Optical 88's turnover by FY2007/08.
- To further improve gross margins in order to neutralize the negative effects of escalating rentals and operating costs.

Hipo.fant Children Wear

Although, Hipo.fant Hong Kong and regionally reported improved performances compared to last year, a loss before stock provision of nearly HK\$8 million was still recorded this year. After a re-evaluation of the chain's past performance and prospects for future development, the directors are of the view that the business should be closed. Owing to the closure, in addition to normal provision for obsolete stock of HK\$2 million, an additional provision of HK\$15 million has been made to write down the stocks to their net realisable value for this financial year. A separate announcement containing more details regarding the closure will be published on 15th July 2005.

Property Investment

Stelux House continues to contribute stable income to the Group. Rental income for the year was approximately HK\$23 million (2004: HK\$30 million). The average floor area occupied during the year was 84.26% (2004: 85.49%). Surplus on revaluation of investment properties was HK\$154 million compared to a surplus of HK\$26 million last year.

Group Strategies

- We shall focus on what we are best at – the watch and optical businesses. We aim to be Asia's leading watch and optical group – two businesses where the Group now already enjoys competitive advantages. In attaining this goal, resources will be focused on these two core businesses, building retail/wholesale distribution networks in Asia, our home market, in the coming years.
- We look to grow our home market by organic expansion as well as acquisition of businesses which compliment and synergize with our existing businesses.
- We consider Europe, Japan, North America and Middle East as export markets, where we have built a network of distributor partners for adidas watch over the last 10 years.
- We intend to build our watch export business with a portfolio of house and licensed brands for long term growth. Once this is completed in two to three years time, the Group's watch business would become more globalized.
- It is expected that funds for growing our business will come from internal funds and bank borrowings.

Prospects

With the liberalization of China's retail markets and the opening of major tourist attraction projects in Hong Kong, Singapore and Macau, we see substantial growth potential for our retail businesses, City Chain and Optical 88, in the next two to three year.

High oil prices, escalating rentals and other operating costs will have some impact on the performance of individual countries but generally, we remain optimistic that our core businesses will continue to perform.

FINANCE

The Group's bank borrowings at balance sheet date were HK\$495 million (2004: HK\$503 million), out of which, HK\$216 million (2004: HK\$253 million) were repayable within 12 months. The Group's gearing ratio at balance sheet date was 0.51 (2004: 0.61, as restated), which was calculated based on the Group's bank borrowings and shareholders' funds of HK\$963 million (2004: HK\$822 million, as restated).

Of the Group's bank borrowings, 3% (2004: 4%) were denominated in foreign currencies. The Group's bank borrowings denominated in Hong Kong Dollars were on a floating rate basis at either bank prime lending rates or short term inter-bank offer rates.

The Group does not engage in speculative derivative trading.

CAPITAL STRUCTURE OF THE GROUP

There was no change in the capital structure of the Group during the year except that options of 8,000,000 shares of the Company were exercised at HK\$0.248 per ordinary share. Details of outstanding share options will be disclosed in the Group's Annual Report 2005.

CHANGES IN THE COMPOSITION OF THE GROUP DURING THE YEAR

There was no change in the composition of the Group during the year.

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 31st March 2005, the Group had 2,259 (2004: 2,048) employees.

DETAILS OF THE CHARGES ON GROUP ASSETS

At 31st March 2005, certain of the Group's land and buildings amounting to HK\$166 million (2004: HK\$175 million) and investment properties amounting to HK\$711 million (2004: HK\$557 million) were pledged to secure banking facilities granted to the Group. No bank deposits (2004: HK\$2 million) and no other debtors (2004: HK\$50 million) of the Group were pledged to secure banking facilities.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 1st September 2005 (Thursday) to 6th September 2005 (Tuesday) both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the entitlement to the final 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, 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 31st August 2005 (Wednesday). Final dividend will be paid on 21st September 2005 (Wednesday).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, there was no purchase, sale or redemption by the Company, or any of its subsidiary companies, of the Company's listed securities.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year except that the independent non-executive directors of the Company are not appointed for a specific term but subject to retirement by rotation in accordance with the Company's Bye-laws.

DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

A detailed announcement of annual results of the Group for the year ended 31st March 2005 containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange (<http://www.hkex.com.hk>) in due course.

On behalf of the Board

Joseph C. C. Wong

Vice Chairman and Chief Executive Officer

Hong Kong, 14th July 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*), Sydney Chu Chun Keung (*independent*) and Wu Chun Sang (*independent*).