STELUX
Holdings International Limited

寶光實業(國際)有限公司

Annual Report 2007

Stock Code: 84

Contents

	2003 HK$'M	(As restated) 2004 HK$'M	(As restated) 2005 HK$'M	2006 HK$'M	**2007** **HK$'M**
Consolidated income statement for the year ended 31st March (Note)					
Revenues	1,198.1	1,210.0	1,413.5	1,618.0	**1,792.6**
(Loss)/profit attributable to shareholders	(32.1)	82.7	171.0	187.8	**102.7**
Interim dividend paid	–	–	9.5	9.5	**10.5**
Final dividend proposed	–	18.9	23.8	26.6	**27.6**
Special dividend paid	–	–	–	475.7	**–**
Consolidated balance sheet as at 31st March					
Assets	1,576.0	1,677.3	1,830.6	1,360.9	**1,436.3**
Less: Liabilities and minority interests	857.8	854.8	867.2	713.2	**698.6**
Shareholders funds	718.2	822.5	963.4	647.7	**737.7**
	HK$	HK$	HK$	HK$	**HK$**
Per share data					
(Loss)/earnings	(0.034)	0.088	0.181	0.197	**0.107**
Proposed final dividend	–	0.020	0.025	0.028	**0.029**
Net assets	0.767	0.872	1.013	0.681	**0.775**

Note: The Board has resolved on 14th July 2005 to close the Hipo.fant business. Such closure has been completed in March 2006.

The financial data of 2003 to 2006 include the results of the Hipo.fant business.

Joseph C. C. Wong
Vice Chairman and Chief Executive Officer

After substantial restructuring during the last few years to focus on the watch and optical businesses, the Group is pleased to announce a profit attributable to shareholders after tax and minority interests of HK$102 million for this financial year compared to HK$187 million last year. Seemingly, a decline compared to the previous year, but we have returned a pleasing performance as the disposal of Stelux House at the end of March 2006 has resulted in a substantial reduction in earnings from the Group's investment properties. Group turnover was up 10.8% from HK$1,618 million (including turnover from continuing operations and discontinued operation of HK$1,527 million and HK$91 million respectively) last year to HK$1,793 million this year.

The Directors recommend the payment of a final dividend of HK$0.029 (05/06: HK$0.028) per share and with an interim dividend of HK$0.011 (05/06: HK$0.01) per share, the total dividend payment for the financial year ended 31st March 2007 is HK$0.040 per share (05/06: HK$0.538, including a special dividend of HK$0.50 per share).

WATCH RETAIL BUSINESS

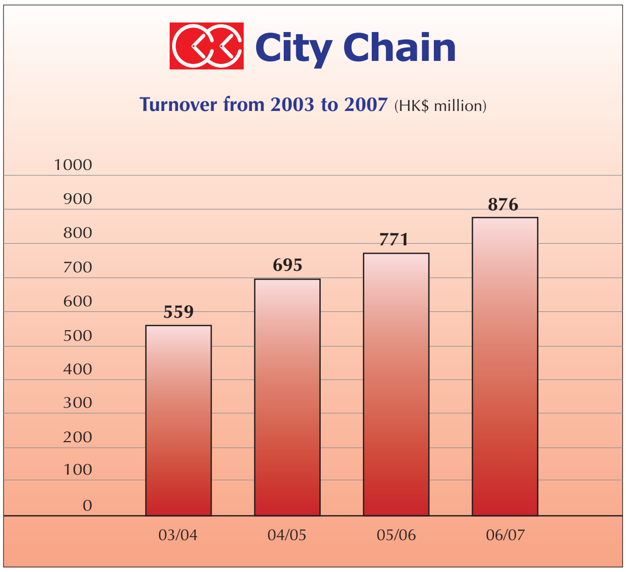
Buoyant sentiment regionally helped boost performance and our watch retail business, mainly operating as "CITY CHAIN", returned positive results with turnover up 13.5% from last year. EBIT was HK$69 million compared to HK$29 million during the same period last year.

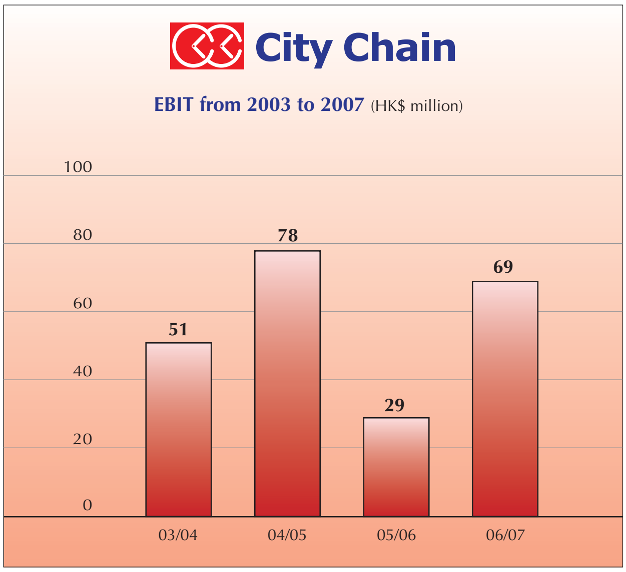
Singapore, Malaysia and Thailand posted very positive performances within expectations with an EBIT of HK$59 million up from HK$20 million. Currency gains due to the weak US$ also contributed to the higher earnings. Turnover, likewise, did not disappoint and increased by 24% compared to the previous year.

Our Hong Kong and Macau operations were not far behind and posted an increase in EBIT to HK$26 million from HK$19 million last year. Overall turnover was marginally up.

As expected, our mainland operations continued to lag behind other countries reporting a loss before interest of HK$16 million. Investment costs in building our brand names continued to impact. Turnover grew by 45% but was insufficient to set off initial shop investment costs. We will continue with plans to open more shops on the mainland this year to accelerate turnover growth. To achieve this, we have modified our overall business strategy. We will open larger shops within quality shopping malls and also on "high traffic high street" level tier one locations in major cities. At the same time, we are also exploring wholesale opportunities of our house brands to other regions within the mainland where we feel a direct retail presence may not be presently suitable.

Notwithstanding initial setbacks, we remain confident that losses from our mainland business will be reversed over the medium term and eventually the business will drive profit growth over the longer term.





OPTICAL RETAIL BUSINESS

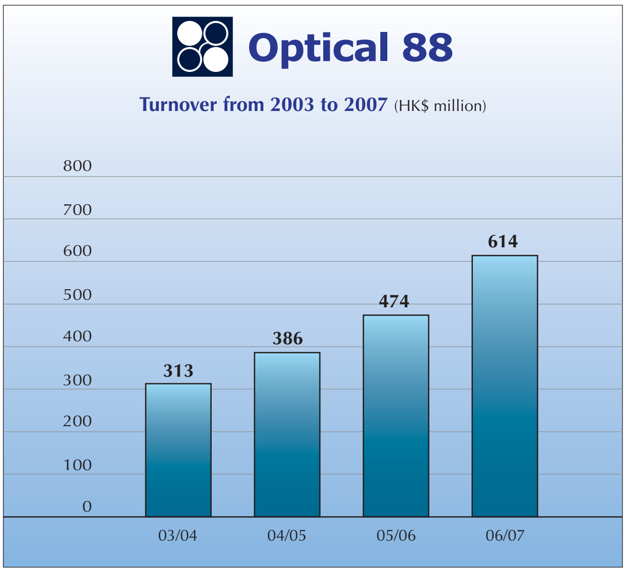
The optical retail segment of the Group's business – "Optical 88", "INSIGHT" and "IZE" recorded good results with an EBIT of HK$54 million compared to HK$37 million the previous year. Turnover grew by almost 30%. The pleasing results were due in part to the strong economies and also our ability to grow market share.

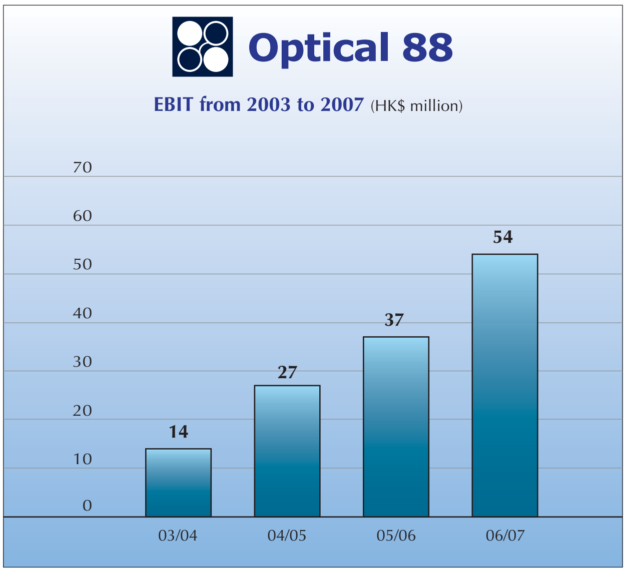
Despite intense competition, our Hong Kong and Macau operations reported an EBIT of HK$40 million from an EBIT of HK$33 million last year, a year on year increase of almost 22%. Turnover was strong and grew by 26%.

Singapore, Malaysia and Thailand all performed within our expectations posting an increase in turnover of nearly 36% and EBIT of HK$19 million compared to HK$8 million the previous year.

Turnover of our mainland operations grew by a wide margin, an increase of almost 70%. However, initial investment costs continued to impact and a loss before interest of almost HK$5 million was recorded. The pace of shop openings will be accelerated to boost turnover. We will focus on opening new shops within quality malls and "high traffic high street" level shops in Guangdong Province.

Likewise, we believe our mainland operations will become a contributor over the medium term and subsequently drive profit growth over the longer term.





WATCH EXPORT ASSEMBLY AND WHOLESALE TRADING

This segment of the Group's business reported an EBIT of HK$24 million compared to HK$9 million last year. Turnover grew by 19%. Whilst overall performance was generally positive, losses incurred by our several subsidiaries impeded a better performance.

As reported in our interim results for the first six months ended September 2006, measures have been undertaken to restructure and cut costs of our watch assembly and export trading units. These measures have been successful. Performance at both units improved during the last six months with our export trading unit containing loss for the full financial year at HK$6 million, a figure slightly higher than the HK$5 million loss recorded for the first six months. (For the financial year ended March 2006, our export trading unit reported an EBIT of HK$12 million.) A loss of HK$2 million recorded during the first six months at our watch assembly unit was also reversed and an EBIT of HK$1 million was recorded for the full year. We expect the performances of both units to continue to improve.

Losses at our Swiss subsidiary, Universal Geneve S.A. widened to HK$18 million compared to HK$11 million for the same period last year. Response to our new collection at the Basel World Fair in March 2007 was encouraging. Turnover increased more than two times. However, research and development costs for the second generation "MICROTOR" movement and marketing costs of the Universal Geneve brand were higher than expected and have been expensed for this year. We will continue to periodically review the situation at this subsidiary.

Reporting a full year performance since its acquisition by the Group, the Thong Sia Group operating wholesaling businesses in Hong Kong, Singapore, Malaysia and Taiwan returned splendidly good results and was a major profit contributor to this segment of the Group's business. We expect the momentum in both turnover and profit growth to be maintained in the coming year.

INVESTMENT HOLDING

During the period under review, the Group disposed of 30 million shares in Xinyu Hengdeli at HK$4.00 per share and as a result of the disposal a gain of HK$29.25 million before tax was recorded.

BUSINESS STRATEGY

As announced on 20th June 2007, Arisaig Greater China Fund Limited acquired approximately 9.5% of the entire issued share capital of the Company. The Directors believe that diversification of the Company's shareholder base will benefit the future development of the Group.

FINANCE

The Group's borrowings at balance sheet date were HK$337 million (2006: HK$365 million), out of which, HK$265 million (2006: HK$329 million) were repayable within 12 months. The Group's gearing ratio at balance sheet date was 0.46 (2006: 0.56), which was calculated based on the Group's borrowings and shareholders' funds of HK$738 million (2006: HK$648 million).

Of the Group's borrowings, 3% (2006: 20%) were denominated in foreign currencies. The Group's 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.

STAFF

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 2007, the Group had 2,694 (2006: 2,451) employees.

I express my most sincere thanks and gratitude to colleagues and staff members for their commitment, hard work and loyalty to the Group during the year.

On behalf of the Board

Joseph C. C. Wong
Vice Chairman and Chief Executive Officer

Hong Kong, 23rd July 2007

The directors submit their report together with the audited financial statements for the year ended 31st March 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are shown on pages 85 to 88.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31st March 2007 are set out in the consolidated income statement on page 24.

The directors have declared an interim dividend of HK$0.011 (2006: HK$0.010) per ordinary share, totalling HK$10,465,000.

The directors recommend the payment of a final dividend of HK$0.029 (2006: HK$0.028) per ordinary share, totalling HK$27,589,000.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 29 to the financial statements.

DONATIONS

During the year, the Group made charitable donations of HK$102,000.

PROPERTY, PLANT AND EQUIPMENT

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

PRINCIPAL PROPERTIES

Details of principal properties held for own use and for investment purposes are set out in pages 89 to 93.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company are set out in note 28 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31st March 2007, the distributable reserves of the Company available for distribution as dividends to shareholders amounted to HK$442,208,000 (2006: HK$482,937,000).

PRE-EMPTIVE RIGHTS

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

DIRECTORS AND INTERESTS IN CONTRACTS

The directors during the year were:

Wong Chong Po	
Joseph C. C. Wong	
Chu Kai Wah, Anthony	
Sakorn Kanjanapas	
Wong Yuk Woon	(resigned on 1st June 2006)
Lee Shu Chung, Stan	(resigned on 16th February 2007)
Lau Tak Bui, Vincent	(appointed on 1st April 2006)
Kwong Yiu Chung	(independent non-executive, retired on 6th September 2006)
Wu Chun Sang	(independent non-executive)
Wu Chi Man, Lawrence	(independent non-executive)
Kwong Yi Hang, Agnes	(independent non-executive, appointed on 6th September 2006)

The terms of office of all non-executive directors, including the independent non-executive directors, are 3 years, subject to retirement by rotation according to the Company's Bye-law 110(A), whichever is the earlier. In accordance with Bye-law 110(A), Mr. Chu Kai Wah, Anthony and Mr. Wu Chun Sang will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

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

During the year, Mr. Wong Chong Po, Mr. Joseph C. C. Wong, Mr. Chu Kai Wah, Anthony, Mr. Lee Shu Chung, Stan and Mr. Lau Tak Bui, Vincent were eligible to an annual bonus determinable under the terms of an executive bonus scheme with respect to their management of the Group. Provision for the executive bonus in respect of the directors eligible under the Executive Bonus Scheme for the year ended 31st March 2007 amounted to HK$7,380,000 (2006: HK$14,770,000).

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

SHARE OPTIONS

On 9th March 2005, a new share option scheme, replacing the previous scheme which was approved by the shareholders on 25th June 1997, for the employees, officers and directors of the Company and its subsidiaries (the "Share Option Scheme") was approved and adopted by the shareholders pursuant to which the Board was authorised to grant options to the employees, officers and directors of the Company or its subsidiaries to subscribe for shares of the Company for a fixed period. The option period refers to a period which the Board may in its absolute discretion determine and specify, save that (a) for ease of administration, in the absence of a separate Board resolution at the time of grant specifying otherwise, such period should be seven years from the commencement date of the share option and (b) in any event such period shall expire not later than 10 years from the commencement date of the share option. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes must not in aggregate exceed 95,134,002 shares. The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes must not exceed 30% of the shares in issue from time to time. No options may be granted under any schemes of the Company if this will result in the limit being exceeded. An offer of the grant of options must be accepted within 28 days from the commencement date of the relevant option period. The purpose of the Share Option Scheme is to attract and retain the best quality personnel for the development of the Company's business; to provide additional incentives to the employees, officers and directors of the Company and its subsidiaries and to promote the long term financial success of the Company by aligning the interests of Option Holder (any employee or a director of the Company or any subsidiary who accepts an offer of the grant of an Option in accordance with the terms of the Share Option Scheme or their legal personal representatives) to shareholders. The consideration payable on acceptance of the offer for the grant of an option is HK$1. The subscription price is determined by the Board at the time of grant of the relevant option and shall not be less than whichever is the higher of the closing price of the shares as stated in the daily quotation sheets of the Stock Exchange of Hong Kong Limited ("Stock Exchange") on the commencement date of the share option, which must be a business day; the average closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the commencement date of the share option; and the nominal value of a share. No option had been granted during the year and there was no option outstanding as at 31st March 2007.

As at 31st March 2007, the total number of ordinary shares available for issue in the remaining life of the Share Option Scheme was 95,134,002.

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

As at 31st March 2007, the interests and short positions of the directors, chief executive and their associates in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") (including interests which they are deemed or taken to have under such provisions of the SFO) as recorded in the register maintained under Section 352 of the SFO or as otherwise notified to the Company were as follows:

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

(a) The Company — Ordinary shares

	Number of shares				Approximate percentage of issued share capital as at 31st March 2007
	Personal interests	Family interests	Corporate interests	Total	
Mr. Wong Chong Po	8,895,000[1]	—	—	8,895,000	0.93
Mr. Joseph C. C. Wong	94,128,011	10,000	—	94,138,011	9.90
Mr. Chu Kai Wah, Anthony	2,000,000	—	—	2,000,000	0.21
Mr. Sakorn Kanjanapas	7,452,056	—	—	7,452,056	0.78
Mr. Lau Tak Bui, Vincent	819,200	—	—	819,200	0.09

Notes:

(1) Mr. Wong Chong Po is the executor of the estate of Mr. Wong Chue Meng and held 7,680,000 shares on trust in his capacity as executor.

(b) Subsidiaries

	Number of shares				Approximate percentage of preference shares as at
	Personal interests	Family interests	Corporate interests	Total	31st March 2007
(i) City Chain (Thailand) Company Limited – Preference shares [1]					
Mr. Wong Chong Po	200	—	208,800	209,000	99.52
Mr. Joseph C. C. Wong	200	—	208,800	209,000	99.52
Mr. Sakorn Kanjanapas	200	—	208,800	209,000	99.52
(ii) Stelux Watch (Thailand) Company Limited – Preference shares [2]					
Mr. Wong Chong Po	600	—	—	600	16.67
Mr. Joseph C. C. Wong	600	—	—	600	16.67
Mr. Sakorn Kanjanapas	600	—	—	600	16.67
(iii) Optical 88 (Thailand) Company Limited-Preference shares [3]					
Mr. Wong Chong Po	5,000	—	225,000	230,000	90.20
Mr. Joseph C. C. Wong	5,000	—	225,000	230,000	90.20
Mr. Sakorn Kanjanapas	5,000	—	225,000	230,000	90.20

Notes:

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

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

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

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

SUBSTANTIAL SHAREHOLDERS

As at 31st March 2007, the following companies (other than directors of the Company as disclosed above) had interests in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name	Number of shares	Percentage of shareholding	Notes
Yee Hing Company Limited	344,031,771	36.16	(a)
Active Lights Company Limited	135,653,636	14.26	(b)
Thong Sia Company Limited	91,032,218	9.57	(c)

Notes:

(a) These shares are held by Yee Hing Company Limited ("Yee Hing") as beneficial owner. The estate of Mr. Wong Chue Meng ("Estate") has a controlling interest in Yee Hing.

(b) These shares are held by Active Lights Company Limited as beneficial owner. Active Lights Company Limited is a company controlled by Yee Hing.

(c) These shares are held by Thong Sia Company Limited ("TSCL") as beneficial owner. Yee Hing holds 68.25% of the issued shares of TSCL.

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

Save as disclosed in Directors' Interests above, so far as the directors are aware, there are no other parties which were, directly or indirectly, interested in 5% or more of the nominal value of the share capital of the Company as at 31st March 2007 as recorded in the register required to be kept by the Company under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

MAJOR CUSTOMERS AND SUPPLIERS

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

MANAGEMENT CONTRACTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

CONFIRMATION OF INDEPENDENCE BY INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received confirmations of independence from its independent non-executive directors, who have confirmed their independence as of 1st April 2006 up to and including 31st March 2007 and up to the date of retirement of one independent director. The Company considers its independent non-executive directors to be independent.

CONNECTED TRANSACTIONS

The following continuing connected transactions are based on normal commercial terms agreed after arms' length negotiations between the parties and are in the ordinary and usual course of business of the Company. The continuing connected transactions are subject to the annual review, reporting and announcement requirements respectively under Rules 14A.37 to 14A.41, and Rules 14A.45 to 14A.47 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and exempt from independent shareholders' approval.

I. CONTINUING CONNECTED TRANSACTIONS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31ST MARCH 2007

The following continuing connected transactions under the heading above has been reviewed by the directors of the Company (including the independent non-executive directors). The independent non-executive directors of the Company have confirmed that during the year all these transactions were entered into:

(a) in the ordinary and usual course of business of the Company;

(b) either (i) on normal commercial terms or (ii) where there was no available comparison on terms no less favourable to or from the Company than terms available to or from independent third parties; and

(c) in accordance with the relevant agreements governing such transactions on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

(a) had received approval from the directors of the Company;

(b) had been entered in accordance with the terms of the relevant agreements governing such transactions; and

(c) had not exceeded the relevant caps as previously announced.

(1) Purchase of optical products from connected parties

(A) Date of transaction:
From 1st April 2006 to 31st March 2007

Parties and their connected relationship:
Purchaser: Certain retail subsidiaries of the Group
Vendor: Vision PRO Trading Company Limited and its subsidiary companies (“Vision Pro Group”)

At the date of the announcement on 12th June 2004, it was disclosed that the estate of Mr. Wong Chue Meng (“Estate”) was interested in approximately 70% of the issued share capital of the Company (through various holding companies including Yee Hing Company Limited (“Yee Hing”)). Vision Pro Group, a 60% indirectly owned subsidiary of Yee Hing, through a holding subsidiary called International Optical Manufacturing Company Limited (“IOM”) and 40% owned subsidiary of Thong Sia Company Limited (“TSCL”), holding approximately 10% of the issued share capital of the Company. Yee Hing a substantial shareholder of the Company held approximately 44% of its issued share capital. Mr. Chumphol Kanjanapas (alias Joseph C.C. Wong), the Vice Chairman and Chief Executive Officer of the Company, was a director of Vision PRO Trading Company Limited. Mr. Wong Chong Po, the present Chairman of the Company, was a director of IOM. Therefore, Vision Pro Group was an associate of connected persons of the Company.

Description and purpose of the transaction:
Purchases of optical products for the Group’s retail operations.

Terms of the transaction:
In accordance with the terms (no less favourable than those offered by the Vision Pro Group to other third parties with payment terms of 90 days upon receipt of invoice) of written agreements (“Retail Purchase Agreements”) for the period from 1st April 2004 to 31st March 2007

Total consideration of the transaction for the financial year ended 31st March 2007:
HK$5,772,000.

Nature and extent of the connected person’s interest in the transaction:
The transaction relates to the sale of optical products. The maximum aggregate annual consideration (the “Cap”), as revised on 15th February 2005 for the three financial years ended 31st March 2005, 2006 and 2007 are HK$4,000,000, HK$4,800,000 and HK$5,800,000 respectively.

(B) Date of transaction:
From 1st April 2006 to 31st March 2007

Parties and their connected relationship:
Purchaser: Thong Sia Company (Singapore) Private Limited and Thong Sia Sdn Bhd, collectively referred to as Thong Sia Companies
Vendor: Vision PRO Trading Company Limited and its subsidiary companies (“Vision Pro Group”)

At the date of the circular to the shareholders on 31st August 2005, it was disclosed that the Estate held more than 30% equity interest in TSCL, TSCL was a connected person (as defined in the Listing Rules) of the Group by virtue of the fact that it was an associate of the Estate which was a connected person (as defined in the Listing Rules) of the Group. Since TSCL and Yee Hing each held more than 30% equity interests in Vision Pro Group, Vision Pro Group was connected person (as defined in the Listing Rules) of the Group by virtue of the fact that it was an associate of TSCL and Yee Hing which were both connected persons (as defined in the Listing Rules) of the Group. The Thong Sia Companies were acquired by the Group and became subsidiaries of the Company on 30th September 2005.

Description and purpose of the transaction:
Purchases of optical products for the Group's wholesale operations.

Terms of the transaction:
In accordance with the terms (no less favourable than those offered by the Vision Pro Group to other third parties with payment terms of 90 days upon receipt of invoice) of written agreements ("Wholesale Purchase Agreements") for the period from 1st April 2005 to 31st March 2008

Total consideration of the transaction for the financial year ended 31st March 2007:
HK$1,684,000.

Nature and extent of the connected person's interest in the transaction:
The transaction relates to the sale of optical products. The Caps for the three financial years ended 31st March 2006, 2007 and 2008 are HK$2,000,000, HK$2,500,000 and HK$2,750,000 respectively.

(2) Leasing of properties from connected parties

(A) Date of transaction:
From 1st April 2006 to 31st March 2007

Parties and their connected relationship:
Tenant: Thong Sia Company (Singapore) Private Limited
Landlord: Mengiwa Private Limited ("Mengiwa")

At the date of the circular to the shareholders on 31st August 2005, it was disclosed that the Estate held more than a 30% equity interest in Mengiwa, Mengiwa was a connected person (as defined in the Listing Rules) of the Group by virtue of the fact that it was an associate of the Estate which was a connected person (as defined in the Listing Rules) of the Group.

Description and purpose of the transaction:
Tenancy agreement in respect of the lease of Units #01-01 and #04-00 of Thongsia Building, No.30 Bideford Road, Singapore as office, showroom, warehouse and service centre of the tenant.

Terms of the transaction:
For a period of 3 years from 1st July 2005 up to and including 30th June 2008 at an aggregate sum of the annual rent, management fee and air-conditioning charge of S$420,000.

Total consideration of the transaction for the financial year ended 31st March 2007:
S$420,000 (equivalent to HK$2,104,000)

Nature and extent of the connected person's interest in the transaction:
Rental income of S$420,000 per annum up to and including 30th June 2008.

(B) Date of transaction:
From 1st April 2006 to 31st March 2007

Parties and their connected relationship:
Tenant: Stelux Holdings Limited, a wholly-owned subsidiary of the Company
Landlord: Mengiwa Property Investment Limited ("MPIL")

At the date of the circular to the shareholders on 24th February 2006, it was disclosed that the landlord would become a wholly-owned subsidiary of Yee Hing, a connected party of the Company, upon completion of the disposal of Stelux House by the Group ("Completion"). Therefore, MPIL became a connected party of the Company by virtue of the fact that it became an associate of Yee Hing on the date of Completion on 30th March 2006.

Description and purpose of the transaction:
Tenancy agreements in respect of the lease of portion of 5/F, the whole floor of 27/F and portion of 28/F and 12 carparking spaces of Stelux House as headquarters of the Group.

Terms of the transaction:
For the period from 30th March 2006 to 31st March 2008 at an aggregated monthly rental of HK$373,000 exclusive of management fee, rates and government rent payment in advance on the first day of each calendar month.

Total consideration of the transaction for the financial year ended 31st March 2007:
HK$4,091,000

Nature and extent of the connected person's interest in the transaction:
The transaction relates to the rental of office premises. The Caps for each of the three financial years ended 31st March 2006, 2007 and 2008 are HK$4,500,000.

(C) Date of transaction:
From 19th July 2006 to 31st March 2007

Parties and their connected relationship:
Tenant: Thong Sia Watch Company Limited
Landlord: MPIL

At the date of the announcement on 19th July 2006, it was disclosed that Thong Sia Watch Company Limited was a 96% majority owned subsidiary of the Company. Yee Hing ultimately held approximately 60% of the issued share capital of the Company. MPIL was a wholly-owned indirect subsidiary of Yee Hing.

Description and purpose of the transaction:
Tenancy agreement in respect of the lease of office premises (the whole of 21/F) and 3 carparking spaces (#314, 315 and 317) at Stelux House. The Company, including its major subsidiaries, has its headquarters located at Stelux House. Thong Sia Watch Company Limited was acquired by the Company at the end of September 2005. Relocating the operations of Thong Sia Watch Company Limited to Stelux House improves operational efficiency and helps to reduce rental costs.

Terms of the transaction:
The tenancy agreement dated 19th July 2006 is for a term of two years eight months and thirteen days from 19th July 2006 to 31st March 2009 (both days inclusive) with rent free periods from 19th July 2006 to 18th August 2006, from 19th July 2007 to 18th August 2007 and from 19th July 2008 to 10th August 2008 at a monthly rental for the office of HK$130,340 exclusive of rates, government rent and management fees. For the carparking spaces from 19th July 2006 to 31st March 2009 at a monthly rental of HK$9,450 inclusive of rates, government rent and management fees.

Total consideration of the transaction for the financial year ended 31st March 2007:
HK$1,031,000

Nature and extent of the connected person's interest in the transaction:
The transaction relates to the rental of office premises and carparking spaces. The Caps for the three financial years ended 31st March 2007, 2008 and 2009 are HK$1,100,000, HK$1,600,000 and HK$1,600,000 respectively.

(3) Provision of management and property agency liaison services

Date of transaction:
From 1st April 2006 to 31st March 2007

Parties and their connected relationship:
Agent: Stelux Properties Agency Limited ("SPAL"), a wholly-owned subsidiary of the Company

Principal: MPIL
At the date of the circular to the shareholders on 24th February 2006, it was disclosed that MPIL would become a wholly-owned subsidiary of Yee Hing, a connected party of the Company, upon Completion. Therefore, MPIL became a connected party of the Company by virtue of the fact that it became an associate of Yee Hing.

Description and purpose of the transaction:
On 30th March 2006, SPAL entered into the Services Agreement ("Services Agreement") with MPIL for the provision of the following services ("Services"):

(a) Contract administration with respect to contracts entered into between MPIL and third parties from time to time;

(b) property agency liaison and tenancy management;

(c) management of the property manager of Stelux House; and

(d) other miscellaneous administrative services.

SPAL had been providing the Services to the landlord of Stelux House since 1998 and had accumulated the relevant knowledge and experience. Yee Hing had requested SPAL to continue to manage the Property so as to maintain continuity and the quality of service.

Terms of the transaction:
HK$170,000 per calendar month (in the first year during the duration of the Services Agreement) payable in advance on the first day of each calendar month and for the period from 30th March 2006 to 31st March 2008. The annual fee (other than that in the first year during the duration of the Services Agreement) is subject to increment with reference to the actual increase in costs incurred by SPAL relating to the Services by not more than 10% each year.

Total consideration of the transaction for the financial year ended 31st March 2007:
HK$2,040,000

Nature and extent of the connected person's interest in the transaction:
The transaction relates to the provision of services. The Caps for the three financial years ended 31st March 2006, 2007 and 2008 are HK$2,100,000, HK$2,300,000 and HK$2,500,000 respectively.

The above continuing connected transactions also constitute related party transactions and are disclosed in note 35(i)[2], (ii)(a) and (ii)(c) to the accounts.

II. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS IN CONNECTION WITH PURCHASES OF OPTICAL PRODUCTS

Date of transaction:
From 1st April 2007 to 31st March 2010

Parties and their connected relationship:
Purchaser: Certain retail subsidiaries of the Company under Retail Purchase Agreements and certain wholesale subsidiaries of the Company under Wholesale Purchase Agreements
Vendor: Vision Pro Group

At the date of the announcement on 26th March 2007, it was disclosed that Vision Pro Group was a 87% indirectly owned subsidiary of Yee Hing, which was a substantial shareholder of the Company holding approximately 36% of its issued share capital. Therefore, Vision Pro Group was a connected person of the Company by virtue of the fact that it was an associate of a connected person of the Company.

Description and purpose of the transaction:
On 1st April 2004, the Group, through certain subsidiaries, entered into the Retail Purchase Agreements with Vision Pro Group to record the terms of continuing purchases of optical products by the Group for its retail operations for the period from 1st April 2004 to 31st March 2007. On 1st April 2005, the Thong Sia Companies entered into the Wholesale Purchase Agreements with Vision Pro Group to record the terms of their respective continuing purchases of optical products from Vision Pro Group for the period from 1st April 2005 to 31st March 2008 for their wholesale distribution business. The Group intended to continue to make purchases of suitable optical products on a continuing basis from Vision Pro Group for its retail and wholesale operations and with the expiration of the Retail Purchase Agreements on 31st March 2007 had decided to streamline its relationship with Vision Pro Group. It was the intention

of the Group to continue respectively with purchasing optical products under the Retail Purchase Agreements from Vision Pro Group after 31st March, 2007, and continue with the ongoing purchases of optical products under the Wholesale Purchase Agreements, also from the Vision Pro Group. As a result, on 26th March 2007, the Group, through certain subsidiaries,

(i) entered into the Renewal Retail Purchase Agreements for the period from 1st April 2007 to 31st March 2010;

(ii) terminated the Wholesale Purchase Agreements with effect from 1st April 2007, earlier than the contractual expiration date of 31st March 2008; and

(iii) entered into the Renewal Wholesale Purchase Agreements with expiry dates to coincide with that of the Renewal Retail Purchase Agreements.

The two renewal agreements were entered into with Vision Pro Group to record the terms of continuing purchases of optical products by the Group.

Terms of the transaction:
For a period of three years from 1st April 2007 to 31st March 2010 with major terms:

(A) The Renewal Retail Purchase Agreements

The Group will purchase optical products from Vision Pro Group typically for cash with payment terms of 30 to 60 days upon receipt of invoice. The terms of purchase will be determined on an individual order basis based on the prevailing industry conditions and the purchases will be on terms no less favourable than those offered by Vision Pro Group to other third parties. Currently, the optical products to be purchased by the Group from Vision Pro Group are not available from other suppliers. In future, if the Group purchases optical products that are also available from suppliers other than Vision Pro Group, the terms of purchase under these agreements will be on terms no less favourable to the Group than those offered by independent third party suppliers to the Group.

(B) The Renewal Wholesale Purchase Agreements

Thong Sia Companies will purchase optical products from Vision Pro Group typically for cash with payment terms of 90 days upon receipt of invoice. The terms of purchase will be determined on an individual order basis based on the prevailing industry conditions and the purchases will be on terms no less favourable than those offered by Vision Pro Group to other third parties. Currently, the optical products to be purchased by the Thong Sia Companies from Vision Pro Group are not available from other suppliers. In future, if the Group purchases optical products that are also available from suppliers other than Vision Pro Group, the terms of purchase under these agreements will be on terms no less favourable to the Thong Sia Companies than those offered by independent third party suppliers to the Thong Sia Companies.

Nature and extent of the connected person’s interest in the transaction:
The estimated annual amount of purchases to be made by the Group from Vision Pro Group under the two renewal agreements have been aggregated in accordance with the aggregation of transactions provisions under Rule 14A.25 of the Listing Rules. The Caps for the continuing purchases of optical products from Vision Pro Group under the two renewal agreements are HK$11.8 million, HK$12.4 million and HK$13.0 million for each of the financial years ending 31st March 2008, 2009 and 2010 respectively. The Caps were determined on the following basis:

(i) historical transaction amounts for the period from 1st April 2003 up to and including 30th September 2006;

(ii) additional brands of optical products expected to be purchased by the Group from Vision Pro Group in the financial year ending 31st March 2008; and

(iii) the estimates by the Group of the pace of growth of its optical wear business with respect to the existing brands of optical products purchased from Vision Pro Group and the establishment of new retail stores.

Based upon information available to the Directors at the date of an announcement on 26th March 2007, the Directors consider that the Caps were fair and reasonable. Nevertheless, if during any financial year from 1st April 2007 to 31st March 2010, the aggregate annual consideration for such transactions exceeds the Cap for the relevant financial year, the Company will take steps as required to ensure compliance with the Listing Rules. The directors (including the independent non-executive directors) are of the opinion that the terms of the two renewal agreements are based on normal commercial terms agreed after arms' length negotiations between the parties, and are fair and reasonable. Furthermore, the directors consider that the transactions contemplated under the two renewal agreements are in the ordinary and usual course of business of the Group and are in the interests of the Company and Shareholders as a whole.

III. NEW CONTINUING CONNECTED TRANSACTION ARRANGED AFTER 31ST MARCH 2007

Date of transaction:
From 1st May 2007 to 31st March 2008

Parties and their connected relationship:
Tenant: Stelux Holdings Limited, a wholly-owned subsidiary of the Company
Landlord: MPIL

At the date of the announcement on 25th April 2007, it was disclosed Yee Hing, a substantial shareholder of the Company, held approximately 36% of the issued share capital of the Company. MPIL was a wholly owned indirect subsidiary of Yee Hing.

Description and purpose of the transaction:
Tenancy agreement in respect of the lease of Unit 1501 and storeroom 1A on the 15/F of Stelux House as additional office space and storage space of the tenant.

Terms of the transaction:
For the period from 1st May 2007 to 31st March 2008 at HK$36,500 per month exclusive of rates, government rent and management charges payable monthly in advance in cash from internal funds by the tenant, on the first day of each and every calendar month.

Nature and extent of the connected person's interest in the transaction:
The annual Cap for this transaction has been set at the approximate rental payable by the tenant to the landlord under the terms of the tenancy agreement for the period from 1st May 2007 up to and including 31st March 2008 and is HK$ 405,000.

IV CONNECTED TRANSACTION FOR THE PROVISION OF THE OUTSTANDING LOANS AND THE SHL GUARANTEE IN RESPECT THEREOF AND PROVISION OF THE CORPORATE GUARANTEE AND MORTGAGE ASSETS AND THE SHL INDEMNITY IN RESPECT THEREOF FOLLOWING THE ACQUISITION OF THONG SIA WATCH COMPANY LIMITED, THONG SIA COMPANY (SINGAPORE) PRIVATE LIMITED AND THONG SIA SDN BHD COMPLETED ON 30TH SEPTEMBER 2005

The loans were fully repaid prior to 31st March 2007. The guarantee, mortgage charge and indemnity were fully discharged and released in accordance with the terms as mentioned in the circular to the shareholders dated 31st August 2005.

AUDITORS

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

On behalf of the Board

Joseph C. C. Wong
Vice Chairman and Chief Executive Officer

Hong Kong, 23rd July 2007

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF STELUX HOLDINGS INTERNATIONAL LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Stelux Holdings International Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 24 to 88, which comprise the consolidated and company balance sheets as at 31st March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF STELUX HOLDINGS INTERNATIONAL LIMITED (Continued)
(incorporated in Bermuda with limited liability)

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st March 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23rd July 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 31st March 2007

	Note	2007 HK$'000	2006 HK$'000
Continuing operations:			
Revenues	5	**1,792,625**	1,527,240
Cost of sales	9	**(714,854)**	(578,111)
Gross profit		**1,077,771**	949,129
Fair value gains of investment properties		**8,212**	58,224
Other gains	6	**70,933**	70,344
Other income	6	**23,197**	23,444
Compensation received from arbitration	7	**–**	38,489
Selling expenses	9	**(783,764)**	(688,610)
General and administrative expenses	9	**(199,699)**	(178,445)
Other operating expenses	9	**(38,984)**	(56,568)
Operating profit		**157,666**	216,007
Finance costs	11	**(19,270)**	(32,596)
Profit before income tax		**138,396**	183,411
Income tax (expense)/credit	12	**(35,676)**	12,090
Profit for the year from continuing operations		**102,720**	195,501
Discontinued operation:			
Loss from discontinued operation	14	**–**	(7,662)
Profit for the year		**102,720**	187,839
Attributable to:			
Equity holders of the Company			
– Continuing operations		**101,842**	195,101
– Discontinued operation		**–**	(7,662)
Minority interests – continuing operations		**878**	400
		102,720	187,839
Dividends	15	**38,054**	511,821
		HK cents	HK cents
Earnings per share from continuing operations	16		
– Basic and diluted		**10.71**	20.51
Loss per share from discontinued operation	16		
– Basic and diluted		**–**	(0.80)

As at 31st March 2007

	Note	**2007 HK$'000**	2006 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	**192,209**	130,380
Investment properties	18	**1,300**	34,340
Prepayment of lease premium	19	**152,974**	146,877
Intangible assets	21	**23,027**	22,036
Deferred tax assets	32	**21,092**	21,840
Available-for-sale financial assets	22	**13,252**	10,920
		403,854	366,393
Current assets			
Stocks	23	**518,284**	456,827
Debtors and prepayments	24	**376,607**	303,926
Financial assets at fair value through profit or loss	25	**–**	90,851
Bank balances and cash	26	**105,103**	142,858
		999,994	994,462
Non-current assets held for sale	27	**32,473**	–
		1,032,467	994,462
Total assets		**1,436,321**	1,360,855
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	28	**95,134**	95,134
Reserves	29	**614,958**	525,873
Proposed final dividend	29	**27,589**	26,638
Shareholders' funds		**737,681**	647,645
Minority interests		**4,587**	6,777
Total equity		**742,268**	654,422

	Note	2007 HK$'000	2006 HK$'000
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	32	**2,825**	3,486
Borrowings	31	**71,223**	35,976
		74,048	39,462
Current liabilities			
Creditors and accruals	30	**321,195**	311,120
Income tax payable		**33,382**	26,687
Borrowings	31	**265,428**	329,164
		620,005	666,971
Total liabilities		**694,053**	706,433
Total equity and liabilities		**1,436,321**	1,360,855
Net current assets		**412,462**	327,491
Total assets less current liabilities		**816,316**	693,884

Wong Chong Po
Chairman

Joseph C.C. Wong
Vice Chairman and
Chief Executive Officer

BALANCE SHEET

As at 31st March 2007

	Note	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Investment in subsidiaries	20	**–**	–
Current assets			
Amounts due from subsidiaries	20	**537,665**	583,674
Other debtors and prepayments		**3,664**	3,665
Bank balances and cash	26	**2**	45
		541,331	587,384
Total assets		**541,331**	587,384
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	28	**95,134**	95,134
Reserves	29	**414,619**	456,299
Proposed final dividend	29	**27,589**	26,638
Total equity		**537,342**	578,071
LIABILITIES			
Current liabilities			
Other creditors and accruals		**3,989**	9,313
Total liabilities		**3,989**	9,313
Total equity and liabilities		**541,331**	587,384

Wong Chong Po
Chairman

Joseph C.C. Wong
Vice Chairman and
Chief Executive Officer

For the year ended 31st March 2007

	Attributable to the equity holders of the Company			
	Share capital (Note 28) HK$'000	**Reserves** (Note 29) HK$'000	**Minority interests** HK$'000	**Total** HK$'000
At 1st April 2005	95,134	875,514	2,494	973,142
Minority interest – acquisition of subsidiaries	–	–	3,873	3,873
Exchange difference	–	(895)	10	(885)
Revaluation of available-for-sale financial assets	–	(580)	–	(580)
Profit for the year	–	187,439	400	187,839
Dividend paid	–	(508,967)	–	(508,967)
At 31st March 2006	95,134	552,511	6,777	654,422
At 1st April 2006	95,134	552,511	6,777	654,422
Acquisition of additional equity interests in subsidiaries	–	–	(2,950)	(2,950)
Exchange difference	–	22,964	680	23,644
Revaluation of available-for-sale financial assets	–	2,332	–	2,332
Profit for the year	–	101,842	878	102,720
Dividend paid	–	(37,102)	(798)	(37,900)
At 31st March 2007	95,134	642,547	4,587	742,268

	Note	2007 HK$'000	2006 HK$'000
Cash flows from operating activities			
Cash generated from operations	33(a)	**41,265**	166,748
Interest paid		**(20,206)**	(32,570)
Hong Kong profit tax paid		**(9,972)**	(1,999)
Overseas profit tax paid		**(18,922)**	(10,208)
Net cash (used in)/generated from operating activities		**(7,835)**	121,971
Cash flows from investing activities			
Purchase of property, plant and equipment		**(107,635)**	(62,643)
Acquisition for subsidiaries		**–**	(29,103)
Prepayment of lease premium		**(1,749)**	(10,581)
Proceeds from sale of property, plant and equipment		**2,567**	1,319
Proceeds from disposal of investment properties		**11,569**	450
Proceeds from disposal of prepayment of lease premium		**–**	296
Proceeds from disposal of financial assets at fair value through profit or loss		**120,000**	–
Acquisition of additional equity interests in subsidiaries		**(2,079)**	–
Net proceeds from disposal of subsidiaries	33(b)	**–**	807,804
Interest received		**2,611**	2,091
Dividends received		**2,928**	820
Purchase of financial assets at fair value through profit or loss		**–**	(40,001)
Net cash generated from investing activities		**28,212**	670,452
Cash flows from financing activities			
Drawdown of bank loans		**500,258**	189,682
Repayment of bank loans		**(463,551)**	(389,459)
Capital element of finance lease payments		**(574)**	(296)
Repayment of loans from related companies		**(42,278)**	(11,580)
Repayment of loan from a director		**–**	(8,648)
Dividends paid		**(37,102)**	(508,967)
Dividends paid to minority shareholders		**(798)**	–
Net cash used in financing activities		**(44,045)**	(729,268)
Net (decrease)/increase in cash and cash equivalents		**(23,668)**	63,155
Cash and cash equivalents at beginning of year		**115,977**	50,209
Effect of foreign exchange rate changes		**10,950**	2,613
Cash and cash equivalents at end of year		**103,259**	115,977
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**105,103**	142,858
Bank overdrafts		**(1,844)**	(26,881)
		103,259	115,977

1 GENERAL INFORMATION

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are shown on pages 85 to 88.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton, HM12, Bermuda.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

The financial statements are presented in Hong Kong dollars, unless otherwise stated. These financial statements have been approved by the Board of Directors on 23rd July 2007.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets at fair value through profit or loss and investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

Adoption of amendments to standards and interpretations

In 2007, the Group adopted the amendments to standards and interpretations of HKFRS issued by the Hong Kong Institute of Certified Public Accountants, which are relevant to its operations.

- Amendment to HKAS 19, Employee Benefits, is mandatory for the Company's accounting periods on or after 1st January 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. It also adds new disclosure requirements. As the Company does not intend to change the accounting policy adopted for recognition of actuarial gains and losses, adoption of this amendment only impacts the format and extent of disclosures presented in the financial statements.

- Amendments to HKAS 39 and HKFRS 4, Financial Guarantee Contracts, is mandatory for the Company's accounting periods on or after 1st January 2006. These amendments require issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair values, and subsequently measured at the higher of the unamortised balance of the related fees received and deferred, and the expenditure required to settle the commitment at the balance sheet date. The Company issued corporate guarantees to certain bank loans drawn down by its fellow subsidiaries. The adoption of this Standard has no significant financial impacts to the financial statements of the Company for the year ended 31st March 2007.

- Amendment to HKAS 21, Net Investment in a Foreign Operation, requires that in the financial statements including a foreign operation, the exchange differences on monetary items that formed part of the net investment in the foreign operation should be reclassified as equity, whether or not the monetary item is denominated in the functional currency of either the reporting entity or the foreign operation. The adoption of this amendment has no significant impacts to the financial statements of the Company for the year ended 31st March 2007.

- HK(IFRIC)-Int 4, Determining whether an Arrangement contains a Lease, is mandatory for the Company's accounting periods on or after 1st January 2006. This interpretation requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. The adoption of this Standard has no significant financial impacts to the financial statements of the Company for the year ended 31st March 2007.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

Standards, interpretations and amendments to standards that are not yet effective and have not been early adopted by the Group

- HK(IFRIC)-Int 8, 'Scope of HKFRS 2', effective for annual periods beginning on or after 1st May 2006. It requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued to establish whether or not they fall within the scope of HKFRS 2. Management expects the interpretation will have no material impact to the Group.

- HK(IFRIC)-Int 9, 'Reassessment of Embedded Derivatives', effective for annual periods beginning on or after 1st June 2006. Management believes that this interpretation should not have a significant impact on the Group.

- HK(IFRIC)-Int 10, 'Interim Financial Reporting and Impairment', effective for annual periods beginning on or after 1st November 2006. It prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. Management does not expect the application of the interpretation to have any impact on the Group's financial statements.

- HK(IFRIC)-Int 11, 'Group and Treasury Share Transactions', effective for annual periods beginning on or after 1st March 2007. This interpretation clarifies that certain types of transaction are accounted for as equity-settled or cash-settled under HKFRS 2. It also addresses the accounting for share-based payment transactions involving two or more entities within one group. Management does not expect the interpretation to be relevant to the Group.

- HK(IFRIC)-Int 12, 'Service Concession Arrangements", effective for annual periods beginning on or after 1st January 2008. It applies to companies that participate in service concession arrangements and provides guidance on the accounting by operators in public-to-private service concession arrangements. Management does not expect the interpretation to be relevant to the Group.

- HKFRS 7, 'Financial instruments: Disclosures', and the complementary Amendment to HKAS 1, 'Presentation of Financial Statements-Capital Disclosures', effective for annual periods beginning on or after 1st January 2007. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1st April 2007.

- HKFRS 8, 'Operating Segments', effective for annual periods beginning on or after 1st January 2009. HKFRS 8 introduces the management approach to segment reporting and emphasises the disclosures of the measures used to manage the business. The Group assessed the impact of HKFRS 8 and concluded that it will affect the presentation of segment information of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (see Note 2(g)).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered as an impairment indicator of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investment in a subsidiary is stated at cost less accumulated impairment losses, if any. The results of subsidiary are accounted by the Company on the basis of dividend received and receivable.

(ii) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary financial assets and liabilities, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognised as a separate component of equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Foreign currency translation *(Continued)*

(iii) Group companies (Continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial year in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	Lesser of the unexpired lease term or 40 to 50 years
Equipment	3 to 10 years
Furniture and fixtures	3 to 15 years
Motor vehicles	4 to 5 years

No depreciation is provided on freehold land.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Investment properties

Investment properties are properties held for long-term rental yields. Investment properties are carried at fair value, representing open market value determined annually by independent qualified valuers. Changes in fair values are recorded in the income statement.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment properties committed to sell are classified to non-current assets held for sale at fair value.

(g) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(ii) Trademarks

Trademarks are reassessed as having an indefinite useful life in the previous financial year and the carrying amount brought forward are not amortised but tested annually for impairment (Note 2(h)). Trademarks are carried at cost less accumulated amortisation and accumulated impairment losses.

(h) Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation. They are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as debtors and prepayments in the balance sheet.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains and losses arising, from changes in the fair value of the financial assets at fair value through profit or loss category including interest and dividend income, are presented in the income statement within other income, in the year in which they arise.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Financial assets *(Continued)*

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in the income statement; translation differences on non-monetary securities are recognised in translation reserve. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in investment revaluation reserve.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in investment revaluation reserve are included in the income statement as gains and losses on disposal of available-for-sale financial assets. Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little's possible on equity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from investment revaluation reserve and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of debtors and prepayments is described in Note 2(k) to the financial statements.

(j) Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes the cost of direct labour, materials and appropriate proportion of production overhead expenditure, and is calculated on the weighted average basis. Net realisable value is the anticipated sales proceeds less selling expenses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Debtors and prepayments

Debtors and prepayments are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of debtors and prepayments is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for debtors. Subsequent recoveries of amounts previously written off are credited in the income statement.

(l) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(m) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(n) Creditors

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(q) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group operates and participates in a number of defined contribution plans. The assets of the defined contribution plans are held separately from those of the Group in independently administered funds. The contributions are recognised as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iii) Profit-sharing and bonus plan

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. When the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(s) Recognition of revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Sales of goods – wholesale and trading

Sales of goods are recognised when the Group has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(ii) Sales of goods – retail

Sales of goods are recognised when a group entity sells a product to the customer. Retail sales are usually in cash or by credit card.

(iii) Building management fee income

Building management fee income is recognised when the services are rendered.

(iv) Rental income

Rental income is recognised on a straight-line basis over the lease term.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Recognition of revenue *(Continued)*

(v) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(vi) Dividend income

Dividend income is recognised when the right to receive payment is established.

(t) Leases

(i) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the income statement on a straight-line basis over the period of the lease.

(ii) Finance lease

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(u) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the year in which the dividends are approved by the Company's shareholders.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Financial guarantee

A financial guarantee (a kind of insurance contract) is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument. The Group does not recognise liabilities for financial guarantees at inception, but perform a liability adequacy test at each reporting date by comparing its carrying amount of the net liability regarding the financial guarantee with its present legal or constructive obligation amount. If the carrying amount of the net liability is less than its present legal or constructive obligation amount, the entire difference is recognised in the income statement immediately.

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, interest rate risk, credit risk and liquidity risk.

(i) Foreign exchange risk

The Group operates in Hong Kong and a number of overseas countries and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure.

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its bank loans. Bank loans at variable rates expose the Group to cash flow interest-rate risk. Details of the Group's bank borrowings are disclosed in Note 31(a) below.

The Group has not used any interest rate swaps to hedge its exposure to cash flow interest rate risk.

(iii) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. Sales to retail customers are made in cash or via major credit cards.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Financial risk factors *(Continued)*

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, management aims to maintain flexibility in funding by keeping committed credit lines available.

(b) Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, deposits in approved financial institutions, accounts receivable; and financial liabilities including accounts payable, short-term borrowings, approximate their fair values due to their short maturities.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The fair value of financial liabilities for disclosure purpose is estimated by discounting the future contractual cost flows at the current market interest rate that available to the Group for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Net realisable value of stocks

Net realisable value of stocks is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycles. Management will reassess the estimations at the balance sheet date.

(ii) Impairment of accounts receivable

The Group's management determines the provision for impairment of accounts receivable. This estimate is based on the credit history of its customers and the current market condition. Management reassesses the provision at each balance sheet date.

(iii) Deferred income tax

The Group's management determines the amount of deferred tax asset to be recognised by estimating the amount of future profit available to utilise the tax losses in the relevant tax jurisdiction and entity. The estimate is based on the projected profit in respective jurisdiction and entity and the Group uses its judgement to make assumptions that are mainly based on market conditions existing on balance sheet date. It could change as a result of the uncertainties in the market conditions.

5 REVENUES

	2007 **HK$'000**	2006 HK$'000
Turnover		
Sales of goods	**1,791,264**	1,499,303
Gross rental income	**1,361**	27,937
	1,792,625	1,527,240

6 OTHER GAINS AND OTHER INCOME

	2007	2006
	HK$'000	HK$'000
Other gains		
Fair value gains on financial assets at fair value through profit or loss	**–**	50,749
Gain on disposal of financial assets at fair value through profit or loss	**29,250**	–
Gain on disposal of subsidiaries (Note 33(b))	**–**	15,150
Gain/(loss) on disposal of property, plant and equipment	**396**	(765)
Gain on disposal of investment properties	**1,569**	–
Exchange gain	**39,718**	5,210
	70,933	70,344
Other income		
Building management fee income	**5,061**	11,611
Dividend income from investments	**2,928**	820
Interest income	**2,611**	5,540
Sundries	**12,597**	5,473
	23,197	23,444

7 COMPENSATION RECEIVED FROM ARBITRATION

The Group was entitled to counter-claim liquidated damages and other costs or losses from the contractor for Stelux House. In December 2004, the arbitrator awarded legal costs and interests in favour of the Group. The contractor filed an appeal but failed to overturn the arbitrator's award. After deducting other related costs, the net compensation received of HK$38,489,000 was recognised during the year ended 31st March 2006.

8 SEGMENT INFORMATION

The Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated items represent net corporate expenses or income. Segment assets consist primarily of property, plant and equipment, investment properties, prepayments of lease premium, intangible assets, stocks, debtors and prepayments, financial assets at fair value through profit or loss, non-current assets held for sale and exclude deferred tax assets and bank balances and cash. Segment liabilities consist mainly of creditors and accruals and exclude provision for executive bonus, income tax payable, deferred tax liabilities and corporate borrowings. Capital expenditure comprises additions to property, plant and equipment, investment properties and prepayment of lease premium.

In respect of geographical segment reporting, sales are based on location of its markets and customers. Total assets and capital expenditure are based on where the assets are located. Inter-segment sales are conducted at prices and terms mutually agreed amongst those business segments.

8 SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments

	For the year ended 31st March 2007					
	Continuing operations				Discontinued operation	
	Retail and trading		Property		Retail and trading	
	Watch HK$'000	Optical HK$'000	HK$'000	Sub-total HK$'000	Hipo.fant HK$'000	Group Total HK$'000
Revenues						
Gross segment	1,177,418	613,846	8,159	1,799,423	–	1,799,423
Inter-segment	–	–	(6,798)	(6,798)	–	(6,798)
	1,177,418	613,846	1,361	1,792,625	–	1,792,625
Segment results	92,987	54,250	6,397	153,634	–	153,634
Unallocated income				40,792	–	40,792
Net corporate expenses				(36,760)	–	(36,760)
Operating profit				157,666	–	157,666
Finance costs				(19,270)	–	(19,270)
Profit before tax				138,396	–	138,396
Income tax expense				(35,676)	–	(35,676)
Profit for the year				102,720	–	102,720
Capital expenditure	(81,565)	(28,232)	(13)		–	
Depreciation	(31,883)	(22,040)	(321)		–	
Impairment of property, plant and equipment	(429)	(578)	–		–	
Amortisation of prepayment of lease premium	(3,390)	(2,853)	(3,083)		–	
Fair value gains of investment properties	–	–	8,212		–	
Gain/(loss) on disposal of property, plant and equipment	228	(208)	–		–	
Gain on disposal of investment properties	–	–	1,569		–	
Provision for stocks	(18,993)	(2,530)	–		–	
Impairment of debtors and bad debts written off	(1,636)	(1)	–		–	

8 SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments *(Continued)*

	As at 31st March 2007					
	Continuing operations				Discontinued operation	
	Retail and trading		Property		Retail and trading	
	Watch	Optical		Sub-total	Hipo.fant	Group Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets	857,869	246,216	190,645	1,294,730	–	1,294,730
Unallocated assets				141,591	–	141,591
Total assets				1,436,321	–	1,436,321
Segment liabilities	198,196	103,194	2,484	303,874	–	303,874
Unallocated liabilities				390,179	–	390,179
Total liabilities				694,053	–	694,053

8 SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments *(Continued)*

	For the year ended 31st March 2006					
	Continuing operations				Discontinued operation	
	Retail and trading		Property		Retail and trading	
					(Note a)	
	Watch	Optical		Sub-total	Hipo.fant	Group Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenues						
Gross segment	1,024,947	474,356	38,876	1,538,179	90,748	1,628,927
Inter-segment	–	–	(10,939)	(10,939)	–	(10,939)
	1,024,947	474,356	27,937	1,527,240	90,748	1,617,988
Segment results	37,906	37,480	118,378	193,764	(7,229)	186,535
Unallocated income				66,803	–	66,803
Net corporate expenses				(44,560)	–	(44,560)
Operating profit/(loss)				216,007	(7,229)	208,778
Finance costs				(32,596)	(353)	(32,949)
Profit/(loss) before tax				183,411	(7,582)	175,829
Income tax credit/(expense)				12,090	(80)	12,010
Profit/(loss) for the year				195,501	(7,662)	187,839
Capital expenditure	(32,727)	(39,772)	–		(615)	
Depreciation	(30,136)	(16,817)	(2,058)		(1,373)	
Amortisation of prepayment of lease premium	(3,056)	(2,376)	(3,306)		–	
Fair value gains of investment properties	–	–	58,224		–	
(Loss)/gain on disposal of property, plant and equipment	(633)	(152)	(8)		34	
(Provision for stocks)/reversal of provision for stocks	(2,778)	(2,876)	–		6,571	
Impairment of debtors and bad debts written off	(6,060)	(16)	–		–	

8 SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments *(Continued)*

	As at 31st March 2006					
	Continuing operations				Discontinued operation	
	Retail and trading		Property		Retail and trading	
					(Note a)	
	Watch	Optical		Sub-total	Hipo.fant	Group Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets	707,993	199,596	182,075	1,089,664	2,090	1,091,754
Unallocated assets				269,101	–	269,101
Total assets				1,358,765	2,090	1,360,855
Segment liabilities	190,651	83,639	1,372	275,662	6,145	281,807
Unallocated liabilities				424,626	–	424,626
Total liabilities				700,288	6,145	706,433

Note:

(a) The assets and liabilities of discontinued operation represent rental deposit receivable from landlord, trading balance payable to suppliers and accrued salary and redundancy cost.

8 SEGMENT INFORMATION *(Continued)*

Secondary reporting format – geographical segments

Continuing operations:

	As at and for the year ended 31st March 2007			
	Revenues HK$'000	Segment results HK$'000	Total assets HK$'000	Capital expenditure HK$'000
Hong Kong	**962,323**	**62,800**	**666,554**	**32,099**
South East and Far East Asia	**730,806**	**130,608**	**625,045**	**66,366**
Europe	**14,738**	**(19,491)**	**49,631**	**4,606**
North America	**2,421**	**804**	**–**	**–**
Mainland China	**82,337**	**(21,087)**	**95,091**	**7,229**
	1,792,625	**153,634**	**1,436,321**	**110,300**

	As at and for the year ended 31st March 2006			
	Revenues HK$'000	Segment results HK$'000	Total assets HK$'000	Capital expenditure HK$'000
Hong Kong	817,271	149,840	707,246	26,456
South East and Far East Asia	551,289	62,184	530,132	37,943
Europe	91,988	(9,180)	49,791	2,210
North America	6,951	2,266	113	–
Mainland China	59,741	(11,346)	71,483	6,660
	1,527,240	193,764	1,358,765	73,269

8 SEGMENT INFORMATION *(Continued)*

Secondary reporting format – geographical segments *(Continued)*

Discontinued operation:

	As at and for the year ended 31st March 2007			
	Revenues HK$'000	**Segment results HK$'000**	**Total assets HK$'000**	**Capital expenditure HK$'000**
Hong Kong	–	–	–	–
South East and Far East Asia	–	–	–	–
Mainland China	–	–	–	–
	–	–	–	–

	As at and for the year ended 31st March 2006			
	Revenues HK$'000	Segment results HK$'000	Total assets HK$'000	Capital expenditure HK$'000
Hong Kong	84,938	(3,529)	2,074	615
South East and Far East Asia	1,164	6	16	–
Mainland China	4,646	(3,706)	–	–
	90,748	(7,229)	2,090	615

9 EXPENSES BY NATURE

	2007 HK$'000	2006 HK$'000
Continuing operations:		
Cost of stocks sold and raw materials consumed	**706,343**	567,386
Amortisation of prepayment of lease premium	**9,326**	8,738
Depreciation of property, plant and equipment		
– Owned	**54,826**	49,944
– Leased	**533**	357
Impairment of property, plant and equipment	**1,007**	–
Auditor's remuneration	**4,719**	4,190
Operating leases		
– Buildings	**261,810**	230,691
– Equipment	**26**	753
Outgoings in respect of investment properties	**–**	3,970
Provision for stocks	**21,523**	5,654
Impairment of debtors and bad debts written off	**1,637**	7,396
Donations	**102**	67
Employee benefit expense (Note 10)	**315,647**	284,768
Others	**359,802**	337,820
Total cost of sales, selling expenses, general and administrative expenses and other operating expenses	**1,737,301**	1,501,734
Discontinued operation:		
Cost of stocks sold and raw materials consumed	**–**	53,304
Depreciation of property, plant and equipment		
– Owned	**–**	1,338
– Leased	**–**	35
Auditors' remuneration	**–**	186
Operating leases		
– Buildings	**–**	15,126
Reversal of provision for stocks	**–**	(6,571)
Donations	**–**	1,412
Employee benefit expense (Note 10)	**–**	23,636
Others	**–**	9,803
Total cost of sales, selling expenses, general and administrative expenses and other operating expenses	**–**	98,269

10 EMPLOYEE BENEFIT EXPENSE

	2007	2006
	HK$'000	HK$'000
Continuing operations:		
Salaries and allowances	**297,599**	270,337
Pension contributions less forfeiture utilised (Note a)	**10,149**	7,449
Unutilised annual leave	**751**	437
Social security costs	**3,651**	4,210
Other allowances	**3,497**	2,335
	315,647	284,768
Discontinued operation:		
Salaries and allowances	**–**	22,466
Pension contributions less forfeiture utilised (Note a)	**–**	845
Unutilised annual leave	**–**	325
	–	23,636

(a) Pensions – defined contribution plans

The Group operated a retirement scheme under Occupation Retirement Scheme Ordinance ("ORSO scheme") up to 30th November 2000 for employees in Hong Kong. With effect from 1st December 2000, a mandatory provident fund ("MPF") scheme is set up which is available to eligible employees of the Group, including executive directors. Contributions to the MPF scheme by the Group and employees are calculated at rates specified in the rules of the MPF scheme. The assets of the MPF scheme are held separately from those of the Group in an independently administered fund.

Forfeited contributions totalling HK$6,224,000 for the year ended 31st March 2007 (2006: HK$3,171,000) arising from employees leaving the ORSO scheme, were utilised to offset contributions during the year. The MPF scheme cost charged to the consolidated income statement represents contributions payable by the Company to the fund.

10 EMPLOYEE BENEFIT EXPENSE *(Continued)*

(b) Emoluments of directors and senior management

The remuneration of each director of the Company is set out below:

Name	Fees HK$'000	Basic salaries, allowances, and benefits in kind HK$'000	Contributions to pension plans HK$'000	Discretionary bonus[i] HK$'000	Total HK$'000
For the year ended 31st March 2007					
Wong Chong Po	**100**	**1,395**	**–**	**2,042**	**3,537**
Joseph C. C. Wong	**80**	**2,500**	**90**	**6,125**	**8,795**
Chu Kai Wah, Anthony	**80**	**1,500**	**85**	**2,042**	**3,707**
Sakorn Kanjanapas	**80**	**–**	**–**	**–**	**80**
Lee Shu Chung, Stan[ii]	**80**	**1,245**	**77**	**2,042**	**3,444**
Wong Yuk Woon[iii]	**80**	**294**	**14**	**2,042**	**2,430**
Lau Tak Bui, Vincent[iv]	**80**	**1,718**	**63**	**–**	**1,861**
Kwong Yiu Chung[v]	**33**	**–**	**–**	**–**	**33**
Kwong Yi Hang, Agnes[vi]	**47**	**–**	**–**	**–**	**47**
Wu Chun Sang	**100**	**–**	**–**	**–**	**100**
Wu Chi Man, Lawrence	**80**	**–**	**–**	**–**	**80**
	840	**8,652**	**329**	**14,293**	**24,114**
For the year ended 31st March 2006					
Wong Chong Po	100	1,395	–	1,859	3,354
Joseph C. C. Wong	80	2,850	64	5,576	8,570
Chu Kai Wah, Anthony	80	1,682	70	1,859	3,691
Sakorn Kanjanapas	80	–	–	–	80
Lee Shu Chung, Stan	80	1,682	71	1,859	3,692
Wong Yuk Woon	80	1,960	49	1,859	3,948
Kwong Yiu Chung	80	–	–	–	80
Chu Chun Keung, Sydney[vii]	27	–	–	–	27
Wu Chun Sang	100	–	–	–	100
Wu Chi Man, Lawrence[viii]	33	–	–	–	33
	740	9,569	254	13,012	23,575

i Discretionary bonus represents the amount paid during the year
ii Resigned on 16th February 2007
iii Resigned on 1st June 2006
iv Appointed on 1st April 2006
v Retired on 6th September 2006
vi Appointed on 6th September 2006
vii Resigned on 1st August 2005
viii Appointed on 28th October 2005

10 EMPLOYEE BENEFIT EXPENSE *(Continued)*

(b) Emoluments of directors and senior management *(Continued)*

During the year, none of the directors has waived their emoluments and no emoluments were paid by the Group to any of the directors of the Company as an inducement to join or upon joining the Group or as compensation of loss of office.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31st March 2007 and 2006 included five directors, whose emoluments are reflected in the analysis presented above. Accordingly, there was no employee for the year ended 31st March 2007 and 2006 whose emoluments were among the five highest in the Group.

11 FINANCE COSTS

	2007	2006
	HK$'000	HK$'000
Interest on bank loans and overdrafts wholly repayable within five years	**15,713**	29,432
Interest on bank loans and overdrafts not wholly repayable within five years	**1,645**	–
Interest on other loans wholly repayable within five years	**1,854**	3,112
Interest on finance leases	**58**	52
	19,270	32,596

12 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits for the year ended 31st March 2007 (2006: 17.5%) less relief for available tax losses. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the territories in which the Group operates.

The amount of income tax charged/(credited) to the consolidated income statement represents:

	2007	2006
	HK$'000	HK$'000
Continuing operations:		
Current tax		
– Hong Kong profits tax	**12,916**	8,819
– Overseas profits tax	**27,160**	9,164
– (Over)/under provisions in respect of prior years	**(4,783)**	3,945
	35,293	21,928
Deferred income tax (Note 32)	**383**	(34,018)
Income tax expense/(credit)	**35,676**	(12,090)
Discontinued operation:		
Current tax		
– Overseas profits tax	**–**	45
Deferred income tax (Note 32)	**–**	35
Income tax expense	**–**	80

12 INCOME TAX EXPENSE *(Continued)*

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the applicable tax rate, being the weighted average of rates prevailing in the territories in which the Group operates, is as follows:

	2007 **HK$'000**	2006 HK$'000
Profit before income tax from continuing operations	**138,396**	183,411
Theoretical tax at weighted average rate of 18.84% (2006: 18.48%)	**26,070**	33,893
Income not subject to tax	**(5,044)**	(5,790)
Expenses not deductible for tax purpose	**14,933**	8,608
Recognition of temporary difference not previously recognised	**(1,535)**	(1,084)
Utilisation of previously unrecognised tax losses	**(4,480)**	(8,398)
Tax losses not recognised	**9,677**	7,106
Release of deferred tax liability upon disposal of Stelux House	**–**	(56,432)
(Over)/under provisions in respect of prior years	**(4,783)**	3,945
Others	**838**	6,062
Income tax expense/(credit)	**35,676**	(12,090)

13 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK$3,627,000 (2006: Profit of HK$639,158,000) for the year ended 31st March 2007.

14 DISCONTINUED OPERATION

The Board of Directors has resolved on 14th July 2005 to close the Hipo.fant business. The closure was completed in March 2006. An analysis of the result of the discontinued operation is as follows:

	2007 **HK$'000**	2006 HK$'000
Revenues	–	90,748
Cost of sales	–	(53,304)
Gross profit	–	37,444
Other gains	–	191
Other income	–	101
Selling expenses	–	(41,603)
General and administrative expenses	–	(11,715)
Other operating income	–	8,353
Operating loss	–	(7,229)
Finance costs	–	(353)
Loss before income tax	–	(7,582)
Income tax expense	–	(80)
Loss for the year	–	(7,662)
Operating cash flows	–	13,701
Investing cash flows	–	382
Financing cash flows	–	(3,652)
Total cash flows	–	10,431

15 DIVIDENDS

	2007 **HK$'000**	2006 HK$'000
Interim, paid, of HK$0.011 (2006: HK$0.01) per ordinary share	**10,465**	9,513
Final, proposed, of HK$0.029 (2006: HK$0.028) per ordinary share	**27,589**	26,638
Special, paid, of HK$0.50 per ordinary share (note)	–	475,670
	38,054	511,821

Note:

The special dividend of HK$0.50 per ordinary share was declared pursuant to disposal of Stelux House, as disclosed in Note 33(b).

16 EARNINGS PER SHARE

Basic

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

	2007	2006
Weighted average number of ordinary shares in issue (thousands)	**951,340**	951,340
Profit from continuing operations attributable to equity holders of the Company (HK$'000)	**101,842**	195,101
Basic earnings per share from continuing operations (HK cents)	**10.71**	20.51
Loss from discontinued operation attributable to equity holders of the Company (HK$'000)	**–**	(7,662)
Basic loss per share from discontinued operation (HK cents)	**–**	(0.80)

Dilutive

There were no dilutive potential ordinary shares in existence during the years ended 31st March 2007 and 2006.

17 PROPERTY, PLANT AND EQUIPMENT – GROUP

	Freehold land and buildings HK$'000	Equipment and others HK$'000	Total HK$'000
Year ended 31st March 2006			
Opening net book amount	83,334	71,336	154,670
Additions	–	63,303	63,303
Acquisition of subsidiaries	–	3,107	3,107
Disposal of subsidiaries (Note 33(b))	(33,320)	(3,026)	(36,346)
Disposals	–	(2,050)	(2,050)
Depreciation	(1,366)	(50,308)	(51,674)
Exchange differences	(813)	183	(630)
Closing net book amount	47,835	82,545	130,380
At 31st March 2006			
Cost	80,604	350,592	431,196
Accumulated depreciation	(32,769)	(268,047)	(300,816)
Net book amount	47,835	82,545	130,380
Year ended 31st March 2007			
Opening net book amount	**47,835**	**82,545**	**130,380**
Additions	**40,510**	**68,041**	**108,551**
Disposals	**(1,291)**	**(880)**	**(2,171)**
Depreciation	**(912)**	**(54,447)**	**(55,359)**
Impairment (Note c)	**–**	**(1,007)**	**(1,007)**
Exchange differences	**5,848**	**5,967**	**11,815**
Closing net book amount	**91,990**	**100,219**	**192,209**
At 31st March 2007			
Cost	**127,655**	**408,721**	**536,376**
Accumulated depreciation	**(35,665)**	**(308,502)**	**(344,167)**
Net book amount	**91,990**	**100,219**	**192,209**

17 PROPERTY, PLANT AND EQUIPMENT – GROUP *(Continued)*

Notes:

(a) Certain property, plant and equipment of the Group have been pledged for bank borrowings. The carrying value of these property, plant and equipment as at 31st March 2007 were approximately HK$54,825,000 (2006: HK$14,356,000).

(b) At 31st March 2007, the net book value of property, plant and equipment held under finance leases amounted to HK$1,752,000 (2006: HK$1,284,000).

(c) Impairment loss was included in other operating expenses in the consolidated income statement.

(d) The Group's interest in freehold land and buildings at their net book values are analysed as follows:

	2007 **HK$'000**	2006 HK$'000
Buildings in Hong Kong, held on:		
– Leases between 10 to 50 years	**692**	720
Building outside Hong Kong:		
– Leases over 50 years	**12,288**	11,098
Freehold land and buildings outside Hong Kong	**79,010**	36,017
	91,990	47,835

18 INVESTMENT PROPERTIES – GROUP

	2007 **HK$'000**	2006 HK$'000
At 1st April	**34,340**	712,350
Acquisition of subsidiaries	**–**	9,960
Disposal of subsidiaries (Note 33(b))	**–**	(746,200)
Transfer to non-current assets held for sale (Note 27)	**(32,473)**	–
Disposals	**(10,000)**	(450)
Exchange differences	**1,221**	456
Fair value gains	**8,212**	58,224
At 31st March	**1,300**	34,340

The investment properties were revalued by independent professionally qualified valuer, CS Surveys Limited, as at 31st March 2007. Valuations were based on open market value of these properties.

18 INVESTMENT PROPERTIES – GROUP *(Continued)*

The Group's interests in investment properties are analysed as follows:

	2007 HK$'000	2006 HK$'000
In Hong Kong, held on:		
– Leases between 10 to 50 years	**1,300**	20,900
Outside Hong Kong:		
– Freehold	**–**	13,440
	1,300	34,340

No investment properties were pledged for the year ended 31st March 2007 to secure banking facilities of the Group (2006: HK$33,440,000).

19 PREPAYMENT OF LEASE PREMIUM – GROUP

The Group's interests in prepayment of lease premium for leasehold land at their net book amounts are analysed as follows:

	2007 HK$'000	2006 HK$'000
In Hong Kong, held on:		
– Leases between 10 to 50 years	**76,542**	79,622
Outside Hong Kong, held on:		
– Leases over 50 years	**3,048**	2,690
– Leases between 10 to 50 years	**60,312**	52,664
– Leases under 10 years	**13,072**	11,901
	152,974	146,877

19 PREPAYMENT OF LEASE PREMIUM – GROUP *(Continued)*

The movements of net book value of prepayment of lease premium for leasehold land are analysed as follows:

	2007	2006
	HK$'000	HK$'000
At 1st April	**146,877**	162,830
Additions	**1,749**	10,581
Disposal of subsidiaries (Note 33(b))	**–**	(17,849)
Disposals	**–**	(296)
Amortisation (note b)	**(9,326)**	(8,738)
Exchange differences	**13,674**	349
At 31st March	**152,974**	146,877

Notes:

(a) Certain prepayment of lease premium for leasehold land of the Group have been pledged for bank borrowings. The carrying amount of these prepayment of lease premium for leasehold land as at 31st March 2007 were HK$100,325,000 (2006: HK$101,244,000).

(b) Amortisation of prepayment of lease premium for leasehold land is included in the consolidated income statement as follows:

	2007	2006
	HK$'000	HK$'000
Selling expenses	**6,243**	5,034
General and administrative expenses	**3**	3
Other operating expenses	**3,080**	3,701
	9,326	8,738

20 SUBSIDIARIES AND AMOUNTS DUE FROM SUBSIDIARIES – COMPANY

	2007 HK$'000	2006 HK$'000
Investment in subsidiaries	**–**	–
Amounts due from subsidiaries	**537,665**	583,674
	537,665	583,674

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Details of principal subsidiaries are shown on Note 37.

21 INTANGIBLE ASSETS – GROUP

	Goodwill HK$'000	Trademarks HK$'000	Total HK$'000
Year ended 31st March 2006			
Opening net book amount	–	17,052	17,052
Acquisition of subsidiaries	4,231	–	4,231
Exchange differences	1,084	(331)	753
Closing net book amount	5,315	16,721	22,036
At 31st March 2006			
Cost	5,315	43,762	49,077
Accumulated amortisation	–	(27,041)	(27,041)
Net book amount	5,315	16,721	22,036
Year ended 31st March 2007			
Opening net book amount	**5,315**	**16,721**	**22,036**
Exchange differences	**882**	**109**	**991**
Closing net book amount	**6,197**	**16,830**	**23,027**
At 31st March 2007			
Cost	**6,197**	**45,727**	**51,924**
Accumulated amortisation	**–**	**(28,897)**	**(28,897)**
Net book amount	**6,197**	**16,830**	**23,027**

21 INTANGIBLE ASSETS – GROUP *(Continued)*

Impairment test for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment. The goodwill is attributable to the watch trading operations.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets performed by management covering a five-year period. Management determined the financial budgets based on past performance and its expectations for the market development. Cash flows beyond the five year period are extrapolated using the estimated growth rate stated below.

The key assumptions used for value-in-use calculations are as follows:

1. Growth rate used to extrapolate cash flows beyond the budget period of 2% which does not exceed historical growth rate.

2. Pre-tax discount rate applied to cash flows projections of 10%. The discount rate used is pre-tax and reflects specific risks related to the Group.

During the year ended 31st March 2007, there was no impairment on the CGUs containing goodwill with indefinite useful lives.

Impairment test for trademarks

The Group estimated the recoverable amount of the trademarks based on value-in-use calculations. The calculation uses cash flow projection based on sales of the products carrying the relevant trademark covering a five-year period and a discount rate of 10%. The cash flows are extrapolated using a steady growth rate of 2%.

During the year ended 31st March 2007, there was no impairment on the trademarks with indefinite useful lives.

22 AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	2007 HK$'000	2006 HK$'000
At 1st April	**10,920**	11,500
Revaluation surplus transfer to equity (Note 29)	**2,332**	(580)
At 31st March	**13,252**	10,920

Available-for-sale financial assets as at 31st March 2007 represent unlisted equity investments in Switzerland and are denominated in Swiss Francs.

23 STOCKS – GROUP

	2007 HK$'000	2006 HK$'000
Raw materials	**21,206**	28,032
Work-in-progress	**3,107**	3,181
Finished goods	**493,971**	425,614
	518,284	456,827

The cost of inventories recognised as expense and included in cost of sales amounted to HK$706,343,000 (2006: HK$567,386,000).

24 DEBTORS AND PREPAYMENTS – GROUP

	2007 HK$'000	2006 HK$'000
Trade debtors (Note a)		
Below 60 days	**54,492**	86,340
Over 60 days	**66,703**	15,098
	121,195	101,438
Deposits, prepayments and other debtors (Note b)	**255,412**	202,488
	376,607	303,926

Notes:

(a) The Group allows an average credit period of 60 days to its trade debtors.

24 DEBTORS AND PREPAYMENTS – GROUP *(Continued)*

(b) The balance included amounts due from related companies of HK$91,882,000 (2006: HK$84,162,000), which comprises a balance owed by Bangkok Land Public Company Limited ("Bangkok Land"). The chairman of the Company, Mr. Wong Chong Po, is also the chairman of Bangkok Land. The balance owed by Bangkok Land is made up as follows:

	2007	2006
	HK$'000	HK$'000
Property development consultancy fee receivable	**68,279**	68,279
Interest receivable	**35,440**	33,610
	103,719	101,889
Impairment	**(23,924)**	(22,094)
	79,795	79,795

Of the gross amount receivable, HK$96,434,000 (2006: HK$94,603,000) carries interest at 3% per annum and is repayable on demand.

Other than the balance owed by Bangkok Land, the remaining balances due from related companies are unsecured, interest free and have no fixed terms of repayment.

Impairment of debtors is included in other operating expenses in the consolidated income statement.

(c) An analysis of debtors and prepayments by currency is as follows:

	2007	2006
	HK$'000	HK$'000
Hong Kong dollars	**270,815**	223,638
Renminbi	**19,161**	17,212
Singapore dollars	**19,243**	15,754
Malaysian ringgit	**30,223**	21,634
Thai bahts	**12,376**	8,433
US dollars	**8,537**	10,999
Others	**16,252**	6,256
	376,607	303,926

25 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – GROUP

	2007	2006
	HK$'000	HK$'000
Listed shares in Hong Kong, at market value	**–**	90,851

26 BANK BALANCES AND CASH

	Group		**Company**	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at banks and in hand	**105,103**	142,858	**2**	45
	105,103	142,858	**2**	45

An analysis of bank balances and cash by currency is as follows:

	Group		**Company**	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong dollars	**28,931**	18,211	**2**	45
Renminbi	**23,386**	14,897	**–**	–
Singapore dollars	**11,700**	16,836	**–**	–
Malaysian ringgit	**29,510**	23,058	**–**	–
Thai bahts	**5,659**	56,362	**–**	–
Pound sterling	**521**	10,499	**–**	–
Others	**5,396**	2,995	**–**	–
	105,103	142,858	**2**	45

27 NON-CURRENT ASSETS HELD FOR SALE – GROUP

Two investment properties in Hong Kong and Singapore have been presented as held for sale following the signing of provisional agreements for sale and purchase during the year. The disposals are expected to be completed by July 2007.

28 SHARE CAPITAL

	Number of shares of HK$0.1 each	HK$'000
Authorised:		
At 31st March 2006 and 2007	1,600,000,000	160,000
Issued and fully paid:		
At 1st April 2005, 31st March 2006 and 31st March 2007	951,340,023	95,134

On 9th March 2005, the share option scheme for the employees, officers and directors of the Company and its subsidiaries (the "Share Option Scheme") was approved and adopted by the shareholders pursuant to which the Board was authorised to grant options to the employees, officers and directors of the Company or its subsidiaries to subscribe for shares of the Company for a fixed period.

No share option has been granted during the year and no share options were outstanding as at 31st March 2006 and 2007.

29 RESERVES

Group

	Share premium HK$'000	Revaluation reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1st April 2005	1,977	7,201	(3,582)	869,918	875,514
Exchange difference	–	–	(895)	–	(895)
Change in fair value of available-for-sale financial assets	–	(580)	–	–	(580)
Profit for the year	–	–	–	187,439	187,439
Dividends paid	–	–	–	(508,967)	(508,967)
At 31st March 2006	1,977	6,621	(4,477)	548,390	552,511
Representing:					
2006 final proposed dividend					26,638
Reserves					525,873
					552,511
At 1st April 2006	1,977	6,621	(4,477)	548,390	552,511
Exchange difference	–	–	22,964	–	22,964
Change in fair value of available-for-sale financial assets	–	2,332	–	–	2,332
Profit for the year	–	–	–	101,842	101,842
Dividends paid	–	–	–	(37,102)	(37,102)
At 31st March 2007	1,977	8,953	18,487	613,130	642,547
Representing:					
2007 final proposed dividend					27,589
Reserves					614,958
					642,547

29 RESERVES *(Continued)*

Company

	Share premium HK$'000	Retained earnings HK$'000	Total HK$'000
At 1st April 2005	1,977	350,769	352,746
Profit for the year	–	639,158	639,158
Dividends paid	–	(508,967)	(508,967)
At 31st March 2006	1,977	480,960	482,937
Representing:			
2006 final proposed dividend			26,638
Reserves			456,299
			482,937
At 1st April 2006	1,977	480,960	482,937
Loss for the year	–	(3,627)	(3,627)
Dividends paid	–	(37,102)	(37,102)
At 31st March 2007	1,977	440,231	442,208
Representing:			
2007 final proposed dividend			27,589
Reserves			414,619
			442,208

30 CREDITORS AND ACCRUALS – GROUP

	2007 HK$'000	2006 HK$'000
Trade creditors		
Below 60 days	**128,382**	110,359
Over 60 days	**46,797**	34,606
	175,179	144,965
Other creditors and accruals (note a)	**146,016**	166,155
	321,195	311,120

Notes:

(a) Included in other creditors and accruals are amounts due to related companies of HK$6,491,000 (2006: HK$9,762,000), which are unsecured, interest free and have no fixed terms of repayment.

(b) An analysis of creditors and accruals by currency is as follows:

	2007 HK$'000	2006 HK$'000
Hong Kong dollars	**174,340**	174,313
Renminbi	**59,808**	46,439
Singapore dollars	**21,425**	13,970
Malaysian ringgit	**16,167**	9,145
Thai bahts	**34,892**	29,580
US dollars	**4,055**	22,130
Pound sterling	**1,414**	5,104
Others	**9,094**	10,439
	321,195	311,120

31 BORROWINGS – GROUP

	2007	2006
	HK$'000	HK$'000
Bank borrowings and overdrafts (note a)	**335,027**	321,674
Loans from related companies (note b)	**–**	42,278
Obligations under finance leases (note c)	**1,624**	1,188
	336,651	365,140
Amount repayable within one year included in current liabilities	**(265,428)**	(329,164)
	71,223	35,976

(a) The Group's bank borrowings and overdrafts are repayable as follows:

	2007	2006
	HK$'000	HK$'000
Within 1 year	**264,994**	286,385
Between 1 and 2 years	**25,352**	7,219
Between 2 and 5 years	**28,422**	15,074
Over 5 years	**16,259**	12,996
	335,027	321,674

Included in bank borrowings and overdrafts as at 31st March 2007 are secured borrowings amounted to HK$132,464,000 (2006: HK$136,443,000), which are secured by land and buildings of the Group (Notes 17 and 19).

An analysis of the carrying amounts of the Group's bank borrowings and overdrafts by currency is as follows:

	2007	2006
	HK$'000	HK$'000
Hong Kong dollars	**326,441**	290,509
Renminbi	**–**	2,880
Singapore dollars	**1,844**	9,600
Thai bahts	**6,742**	7,099
Swiss Francs	**–**	11,586
	335,027	321,674

31 BORROWINGS – GROUP *(Continued)*

(a) The Group's bank borrowings and overdrafts are repayable as follows: *(Continued)*

The weighted average effective interest rate per annum for bank borrowings and overdrafts was 5.29% (2006: 7.29%).

The carrying amounts and fair values of total bank borrowings and overdrafts are as follows:

	2007	2006
	HK$'000	HK$'000
Carrying values	**335,027**	321,674
Fair values	**334,793**	321,474

The fair values are based on discounted flows using rates based on the borrowings rates at 5.34% as at 31st March 2007 (2006: 7.34%), with reference to the types and currencies of borrowings.

As at 31st March 2007, the Company had given guarantees to various banks to secure general banking facilities granted to certain subsidiaries amounting to HK$650,482,000 (2006: HK$554,379,000). As at 31st March 2007, the utilised amount of such facilities covered by the Company's guarantees was HK$333,183,000 (2006: HK$297,608,000). The directors considered that no significant liabilities would arise from the bank guarantees given which arose in the ordinary course of business.

(b) The loans from related companies are repayable as follows:

	2007	2006
	HK$'000	HK$'000
Within 1 year	**–**	42,278

An analysis of the carrying amounts of the Group's loans from related companies by currency is as follows:

	2007	2006
	HK$'000	HK$'000
Hong Kong dollars	**–**	27,000
Singapore dollars	**–**	15,278
	–	42,278

The weighted average effective interest rate per annum for loans from related companies was 5.18% as at 31st March 2006.

Loans from related companies as at 31st March 2006 were unsecured, bore interest at prime rate less 2% per annum and were fully repaid during the year ended 31st March 2007.

31 BORROWINGS – GROUP *(Continued)*

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

	2007	2006
	HK$'000	HK$'000
Within 1 year	**512**	555
Between 1 and 2 years	**498**	352
Between 2 and 5 years	**700**	419
Over 5 years	**136**	–
	1,846	1,326
Future finance charges on finance leases	**(222)**	(138)
Present value of finance lease liabilities	**1,624**	1,188
The present value of finance lease liabilities is as follows:		
Within 1 year	**435**	503
Between 1 and 2 years	**434**	304
Between 2 and 5 years	**632**	381
Over 5 years	**123**	–
	1,624	1,188

An analysis of the carrying amounts of the obligation under finance lease by currency is as follows:

	2007	2006
	HK$'000	HK$'000
Hong Kong dollars	**118**	81
Singapore dollars	**530**	554
Malaysian ringgit	**976**	553
	1,624	1,188

32 DEFERRED INCOME TAX – GROUP

Deferred income tax is calculated in full on temporary differences under the liability method using rates of taxation prevailing in the territories in which the Group operates.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2007	2006
	HK$'000	HK$'000
Deferred tax assets	**21,092**	21,840
Deferred tax liabilities	**(2,825)**	(3,486)
	18,267	18,354

The movements in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year are as follows:

	Deferred tax assets/(liabilities)				
	Tax losses HK$'000	Revaluation of investment properties HK$'000	Accelerated accounting/(tax) depreciation allowances HK$'000	Other temporary differences HK$'000	Total HK$'000
At 1st April 2005	14,145	(20,303)	(22,808)	13,856	(15,110)
Transfer to income statement	(11,276)	(9,555)	(1,054)	(564)	(22,449)
Release of deferred tax liability upon disposal of Stelux House	–	29,858	26,574	–	56,432
Exchange differences	–	–	(24)	(120)	(144)
Acquisition of subsidiaries	–	(1,628)	380	873	(375)
At 31st March 2006 and 1st April 2006	2,869	(1,628)	3,068	14,045	18,354
Transfer to income statement	(2,638)	1,628	(758)	1,385	(383)
Exchange differences	–	–	(106)	402	296
At 31st March 2007	231	–	2,204	15,832	18,267

32 DEFERRED INCOME TAX – GROUP *(Continued)*

Out of the total unrecognised tax losses of HK$397,190,000 (2006: HK$381,480,000) carried forward, an amount of HK$329,723,000 (2006: HK$343,912,000) can be carried forward indefinitely. The remaining HK$67,467,000 (2006: HK$37,568,000) will expire in the following years:

	2007 **HK$'000**	2006 HK$'000
In the first year	**7,602**	–
In the second year	**7,309**	7,602
In the third year	**13,962**	7,309
In the fourth year	**25,134**	13,962
In the fifth to tenth years inclusive	**13,460**	8,695
	67,467	37,568

33 CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before income tax to cash generated from operations

	2007 **HK$'000**	2006 HK$'000
Profit before income tax		
– Continuing operations	**138,396**	183,411
– Discontinued operation	**–**	(7,582)
Depreciation	**55,359**	51,674
Impairment loss	**1,007**	–
(Gain)/loss on disposal of property, plant and equipment	**(396)**	731
Fair value gains of investment properties	**(8,212)**	(58,224)
Gain on disposal of subsidiaries (Note b)	**–**	(15,150)
Fair value gains of financial assets at fair value through profit or loss	**–**	(50,749)
Gain on disposal of investment properties	**(1,569)**	–
Gain on disposal of financial assets at fair values through profit or loss	**(29,250)**	–
Negative goodwill recognised on purchase of additional equity interests in subsidiaries	**(871)**	–
Amortisation of prepayment of lease premium	**9,326**	8,738
Interest income	**(2,611)**	(5,540)
Interest expenses	**19,270**	32,949
Dividend income	**(2,928)**	(820)
Net exchange gains	**(39,718)**	(5,401)
Effect of foreign exchange rate changes	**26,488**	1,724
Operating profit before working capital changes	**164,291**	135,761
Increase in stocks	**(61,457)**	(4,235)
Increase in debtors and prepayments	**(72,580)**	(8,903)
Increase/(decrease) in creditors and accruals	**11,011**	(32,896)
Decrease in balances with related companies	**–**	77,021
Cash generated from operations	**41,265**	166,748

33 CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Disposal of subsidiaries

On 20th December 2005, an agreement was entered into between the Group and Yee Hing Company Limited ("Yee Hing") pursuant to which the Group has agreed to dispose of Stelux House (the "Property") to Yee Hing for a cash consideration of HK$820,000,000 through the disposal of the entire issued share capital of Stelux Holdings International (BVI) Limited ("Stelux International (BVI)"), a subsidiary of the Company, following a group reorganisation (the "Disposal").

Analysis of the effect of Stelux International (BVI) and its subsidiary disposed:

	HK$'000
Property, plant and equipment	36,346
Investment properties	746,200
Prepayment of lease premium	17,849
Debtors and prepayments	1,952
Creditors and accruals	(9,693)
Net assets disposed of (excluding cash and cash equivalents)	792,654
Gain on disposal of subsidiaries	15,150
	807,804
Sale consideration	820,000
Less: Adjustment on consideration for assets and liabilities relating to the Property	(4,706)
Cash and cash equivalents disposed	(9)
Direct expenses related to the Disposal	(7,481)
Cash inflow on Disposal	807,804

34 COMMITMENTS

(a) Capital commitments of the Group for property, plant and equipment:

	2007 HK$'000	2006 HK$'000
Contracted but not provided for	**1,382**	842
Authorised but not contracted for	**–**	–
	1,382	842

(b) Commitments under operating leases (where the Group is the lessee)

The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2007 HK$'000	2006 HK$'000
Buildings		
Not later than one year	**290,951**	241,854
Later than one year but not later than five years	**268,782**	219,500
Later than five years	**12,174**	–
	571,907	461,354
Equipment		
Not later than one year	**–**	168
	571,907	461,522

(c) Operating lease arrangements (where the Group is the lessor)

The Group had future aggregate minimum lease receivables under non-cancellable operating leases as follows:

	2007 HK$'000	2006 HK$'000
Buildings		
Not later than one year	**195**	1,308
Later than one year but not later than five years	**–**	1,194
	195	2,502

35 RELATED PARTY TRANSACTIONS

The ultimate holding company of the Group is Yee Hing Company Limited ("Yee Hing") (incorporated in Hong Kong).

Save as disclosed in Notes 24 and 30, the following is a summary of the significant related party transactions carried out in the normal course of the Group's business:

(i) Sales of goods and services/advances to related companies

	2007 **HK$'000**	2006 HK$'000
Rental income received and receivable from related companies	**–**	2,600
Interest income from a related company[1]	**1,830**	3,448
Service income from a related company[2]	**2,040**	–

1 Interest income is charged at 3% per annum on the balance owed by Bangkok Land Public Company Limited ("Bangkok Land") (Note 24(b)). The chairman of the Company, Mr. Wong Chong Po, is also the chairman of Bangkok Land.

2 Stelux Properties Agency Limited ("SPAL"), a wholly-owned subsidiary of the Company, entered into agreement (the "Services Agreement") with Mengiwa Property Investment Limited ("MPIL"), a wholly-owned subsidiary of Yee Hing, for the provision of the following services ("Services"):

(a) contract administration with respect to contracts entered into between MPIL and third parties from time to time;

(b) property agency liaison and tenancy management;

(c) management of the property manager of Stelux House; and

(d) other miscellaneous administrative services.

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

35 RELATED PARTY TRANSACTIONS *(Continued)*

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

	2007 **HK$'000**	2006 HK$'000
Purchase of goods:		
– Related companies (note a)	**7,456**	5,009
– Subsidiaries (note b)	**–**	24,131
Interest expense to related companies	**1,708**	2,134
Interest expense to a shareholder	**–**	145
Interest expense to directors	**–**	720
Rental expense to related companies (note c)	**7,226**	1,317
	16,390	33,456

Notes:

(a) During the year, certain subsidiaries of the Company purchased optical products from the Vision Pro Group, an indirectly owned subsidiary of Yee Hing, in accordance with the terms of written agreements for the Group's retail and trading operations.

(b) Thong Sia Company (Singapore) Private Limited, Thong Sia Watch Company Limited and Thong Sia Sdn Bhd were acquired by the Group on 30th September 2005 and have become subsidiaries of the Group since then.

(c) On 20th July 2005, Thong Sia Watch Company Limited, as tenant has entered into a tenancy agreement with Thong Sia Investment Company Limited ("TSICL"), a company controlled by certain substantial shareholders, for the lease of office premises and service centre for a period of 3 years from 1st July 2005 up to and including 30th June 2008 at a monthly rental of HK$119,080. This transaction ceased in November 2005. Rental paid for the year ended 31st March 2006 amounted to HK$309,000.

On 3rd August 2005, Thong Sia Company (Singapore) Pte Limited, as tenant has entered into a tenancy agreement with Mengiwa for the lease of office premises and showroom in Singapore for a period of 3 years from 1st July 2005 up to and including 30th June 2008 at a monthly rental of HK$175,000 (or SGD35,000). Rental paid for the year ended 31st March 2007 amounted to HK$2,104,000 (2006: HK$1,008,000).

On 30th March 2006, Stelux Holdings Limited, as tenant has entered into a tenancy agreement with MPIL, which is the landlord of Stelux House, to lease certain units and car-parking spaces of Stelux House for the period from 30th March 2006 to 31st March 2008 at an aggregate monthly rental of HK$373,000. Rental paid for the year ended 31st March 2007 amounted to HK$4,091,000 (2006: HK$Nil).

On 19th July, 2006, Thong Sia Watch Company Limited, as tenant has entered into a tenancy agreement with MPIL to lease certain units and car-parking spaces of Stelux House for the period from 19th July 2006 to 31st March 2009 at an aggregate monthly of HK$139,790. Rental paid for the financial year ended 31st March 2007 amounted to HK$1,031,000 (2006: HK$Nil).

35 RELATED PARTY TRANSACTIONS *(Continued)*

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

	2007 HK$'000	2006 HK$'000
Rent receivable from related companies	–	476
Interest receivable from a related company (Note 35(i)[1])	**35,440**	33,610
Trading balances receivable from a related company	**4,745**	3,973
Trading balances payable to related companies	**6,589**	2,030

(iv) Key management compensation

	2007 HK$'000	2006 HK$'000
Salaries and other short-term employee benefits	**16,872**	25,079
Other long-term benefits	**329**	254
	17,201	25,333

36 ACQUISITION OF SUBSIDIARIES

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

Details of net assets acquired and goodwill are as follows:

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

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

36 ACQUISITION OF SUBSIDIARIES *(Continued)*

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

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

During the year ended 31st March 2007, the Group acquired additional 4% and 2% equity interest respectively in Thong Sia Watch Company Limited and Thong Sia Sdn Bhd.

37 PRINCIPAL SUBSIDIARIES

	Place of incorporation/ operation	Principal activities	Share capital issued Number	Par value	Percentage of equity attributable to the Group 2007	2006
Investment						
Stelux Holdings International Group (BVI) Limited	British Virgin Islands	Investment holding	2	US$1	100[a]	100[a]
Stelux Holdings Limited	Hong Kong	Investment holding	1,000	HK$1	100	100
Stelux Investments and Properties (BVI) Limited	British Virgin Islands	Investment holding	1	US$1	100	100
Stelux Watch Holdings Limited (in members' voluntary liquidation)	Singapore	Investment holding	35,617,861	S$1	100	100
Thong Sia (BVI) Company Limited	British Virgin Islands	Investment holding	1	US$1	100	100
Property						
City Chain Properties Limited	Hong Kong	Property investment	2	HK$1	100	100
Optical 88 Properties Limited	Hong Kong	Property investment	2	HK$1	100	100
Prime Master Limited	Hong Kong	Property investment	2	HK$1	100	100
Stelux Consultants B.V.	The Netherlands	Property development and project consultancy	80	EUR227	100	100
Stelux Properties Agency Limited	Hong Kong	Property agency and management	2	HK$1	100	100
Stelux Properties Limited	Hong Kong	Property investment and development	500	HK$100	100	100
Retailing and trading						
City Chain Company Limited	Hong Kong	Watch retailing	250,000	HK$100	100	100
City Chain (M) Sdn Bhd	Malaysia	Watch retailing	3,333,333	RM1	92.5	92.5

37 PRINCIPAL SUBSIDIARIES *(Continued)*

	Place of incorporation/ operation	Principal activities	Share capital issued Number	Par value	Percentage of equity attributable to the Group 2007	2006
Retailing and trading (Continued)						
City Chain (Macau) Company Limited	Macau	Watch retailing	2	MOP5,000	100	100
City Chain Stores (S) Pte Limited	Singapore	Watch retailing	1,800,000	S$1	100	100
City Chain (Thailand) Company Limited	Thailand	Watch retailing	200,000 210,000[b]	Baht100 Baht100	100	100
Optical 88 Limited	Hong Kong	Glasses and related optical gears retailing	30,700,000	HK$1	100	100
Optical 88 (Macau) Limited	Macau	Glasses and related optical gears retailing	2	MOP5,000	100	100
Optical 88 (S) Pte Limited	Singapore	Glasses and related optical gears retailing	500,000	S$1	100	100
Optical 88 (Thailand) Company Limited	Thailand	Glasses and related optical gears retailing	245,000 255,000[b]	Baht10 Baht10	100	100
Optical 88 Eyecare (M) Sdn Bhd	Malaysia	Glasses and related optical gears retailing	1,428,572	RM1	70	70
Pronto Watch S.A.	Switzerland	Watch distribution	100	SFr1,000	100	100
Solvil et Titus S.A.	Switzerland	Watch distribution	300	SFr1,000	100	100

37 PRINCIPAL SUBSIDIARIES *(Continued)*

	Place of incorporation/ operation	Principal activities	Share capital issued Number	Par value	Percentage of equity attributable to the Group 2007	2006
Retailing and trading (Continued)						
Stelux International Licensing Limited	Bahamas	Trademark holding and licensing	2	US$1	100	100
Stelux Trading (International) Limited	Hong Kong	Watch distribution	2	HK$1	100	100
Stelux Watch Limited	Hong Kong	Watch assembling	1,000,000	HK$1	100	100
Time House (Europe) Limited	Hong Kong	Watch distribution	10,000	HK$1	100	100
Thong Sia Watch Company Limited	Hong Kong	Watch distribution	80,000	HK$1	100	96
Thong Sia Company (Singapore) Pte Limited	Singapore	Watch distribution	2,000,000	S$1	100	100
Thong Sia Sdn Bhd	Malaysia	Watch distribution	1,000,000	RM1	96.4	94.4
Thong Tai (Taiwan) Company Limited	Hong Kong/ Taiwan	Watch distribution	1,000	HK$10	100	100
Universal Geneve S.A.	Switzerland	Watch assembling and distribution	5,000	SFr1,000	100	100

37 PRINCIPAL SUBSIDIARIES *(Continued)*

	Place of incorporation/ operation	Principal activities	Paid-up capital	Percentage of equity attributable to the Group 2007	2006
Retailing and trading (Continued)					
Baoshi (Guangdong) Company Limited	People's Republic of China/ Mainland China (foreign-invested commercial enterprise)	Retailing, trading and related optical services	HK$15,890,000	100	100
City Chain (Guangdong) Company Limited	People's Republic of China/ Mainland China (foreign-invested commercial enterprise)	Watch retailing, trading and related services	HK$16,400,000	100	100
City Chain (Shanghai) Company Limited	People's Republic of China/ Mainland China (foreign-invested commercial enterprise)	Watch retailing, trading and related services	US$1,610,000	100	100
Xiong Teng (Shanghai) Trading Co., Limited	People's Republic of China/ Mainland China (wholly owned trading company in free trade zone)	Trading and business consultancy	US$4,500,000	100	100

a Directly held subsidiary

b Non-redeemable preference shares

38 ULTIMATE HOLDING COMPANY

In the opinion of the directors, the ultimate holding company is Yee Hing Company Limited, incorporated in Hong Kong.

Commercial properties (own use)	Gross floor area (sq.ft.)	Remaining lease term (years)
Kowloon		
Shop No. 22, 1/F Po Tin Building, 39 Wai Chi Street, Pak Tin, Kowloon	266	40
Portion of Flats A, B and C, G/F, Kam Ling Building, 231 Nathan Road, Kowloon	1,446	20
Shop 5, G/F, Chung King Mansion, 36-44 Nathan Road, Tsimshatsui, Kowloon	699	31
Macau		
Shop D, G/F, Edificio San Vo, 1G, 1H and 1I Rua de S Domingos, A28, Macau	350	Freehold
Shop E, G/F, Edificio San Vo, 1G, 1H and 1I Rua de S Domingos, A28, Macau	190	Freehold
Loja B and C, de Avenida Horta e Costa, de Rua Manuel de Arriage, Macau	475	Freehold
Predio No. 712 21-A Rua de S. Domingos, Macau	650	Freehold
Rua do Arco and Eatrada, da Areia Preta, Loja G, r/c, Macau	442	Freehold
Flat D, 2/F, Edificio San Vo, 1G, 1H and 1I Rua de S Domingos, A28, Macau	400	Freehold
United Kingdom		
Stelux House, First Avenue, Centrom 100, Burton-On-Trent, Staffordshire, DE14 2WH, England	12,000	Freehold

Commercial properties (own use)	Gross floor area (sq.ft.)	Remaining lease term (years)
Thailand		
Room 2B-O4, 2/F, Mahboonkhrong Centre, 444 Phayathai Rd., Wangmai, Patumwan, Bangkok 10330	473	4
Room 3B14, 3/F, Mahboonkhrong Center, 444 Phayathai Rd., Wangmai, Patumwan, Bangkok 10330	487	4
Room No. 2C-03-04, 2/F, Mahboonkhrong Center, 444 Phayathai Rd., Wangmai, Patumwan, Bangkok 10330	938	4
Room No. 33-34, 2/F, Fortune Town, 5 Ratchadapisek Rd., Din-dang, Huay-kwang, Bangkok 10310	689	5
Room No. 115-116, 1/F, Silom Complex, 191 Silom Rd., Bangruk, Bangkok 10500	1,248	5
Room 54, 2/F, Amarin Plaza, 502 Ploenchit Rd., Patumwan, Bangkok 10330	548	8
Room No. 1C-L22/23, 1/F, The Mall Ramkhumhaeng, 1909 Huamark, Bangkapi, Bangkok 10600	915	9
Room No. AG28, 1/F, Imperial World, 999 Moo 1 Sukhumvit Rd., Samrongnua, Muang District, Samutprakarn	1,295	11
Room No. 1S-R4B, 1/F, The Mall Ngamwongwan, 30/9 Ngamwongwan Rd, Bangkhen, Muang District, Nonthaburi 11000	1,291	13
Room No. GS-C18A, G/F, The Mall Bangkae, 275 Petchakasem Rd., Bangkaenua, Bangkae, Bangkok 10160	904	16
2/F, Diana Complex, 55/3 Sri-puwanard Road, Had-Yai District, Songkhla	538	7
Room No. 1-201 2/F, The Seri Center, 12/90 Moo 6 Srinakarin Rd., Nongborn, Pravet, Bangkok 10250	1,672	16
Room No. 1098, G/F, The Seacon Square, 904 Srinakarin Rd., Nongborn, Pravet, Bangkok 10250	1,184	18
Room No. 126, 1/F, The Central Pinklao, 7/222, 7/552 Baromrajchonee Rd., Arunamarin, Bangkoknoi, Bangkok	867	8
Room No. 2PX-19B2, 2/F, The Mall Nakornratchasima, 1242/2 Mitraparp Rd., Naimuang, Muang District, Nakornratchasima	1,356	20
Room No. 202A, 2/F, 74-75 Moo 5 Central Phuket, Tambol Vichit, Amphur Muang, Phuket	1,367	13

Commercial properties (own use)	Gross floor area (sq.ft.)	Remaining lease term (years)
Thailand		
Room No. FP046, G/F, Future Park Rangsit, 94 Moo 7 Phaholyothin Rd., Prachathipat, Thanyaburi District, Pathumthani	1,254	15
Room No. 2098-2099, Fashion Island, 5/5 Ramindra Km. 10.5 Rd., Khannayao, Beungkum, Bangkok	875	15
Room No. 1SL1, 1/F, The Mall Thapra Center, 99 Ratchadapisek Rd., Bukkalo, Thonburi, Bangkok	753	13
Room No. 114, 1/F, The Central Ramindra, 109/29 Ramindra Road, Anusaowaree, Bangkhen, Bangkok	998	7
Room No. GF13, Future Park Bangkae, 110 Moo 9 Petchakasem Rd., Bangwa, Pasecharoen, Bangkok	1,811	14
Room No. 134A 1/F, Central City Bangna, 1091 Bangna-Trad Road., Bangna, Phakhranong, Bangkok	729	17
Room No. 110, 1/F, Jewerly Trade Center, 919/1 Silom Road, Bangkok 10500	681	18
Room No. AF-42A, 1/F, Imperial Lardpao, 2539 Lardpao Road, Wangthonglang, Bangkapi, Bangkok	1,453	14
Room No. GSC13A, G/F, The Mall Bangkapi, 3522 Ladproa Road, Klongjun, Bangkapi, Bangkok 10310	754	16
Room No. G29/1, 1/F, 79/39 Central Plaza Rama III, Sathupradit Road, Chongnonsee, Yannawa, Bangkok	1,078	16
Room No. A101, 1/F, Charoensri Ar-Ket, 277/3 Prachak Road, Markken, Muang District, Udornthani	431	11
Room No. 120, 1/F, Sriracha Town, 90 Sukumvit Km.118 Rd., Sriracha, Chonburi	1,009	13
Room 116-117, 1/F, Central Airport Plaza, 2 Mahidol Road, Hai-Ya District, Muang, Chieng Mai	1,295	16
Room No. G-17, G/F, 126 Moo 3,Sai Asia Road, Klongsuanplu, Phranakornsriayudhaya, Ayudhaya	1,170	12
Room No. 156/1, 1/F, 128 Moo 3, Rama II Road, Samaedam, Bangkhuntien, Bangkok	1,079	16
Kaitak Building, 7962 Amphur Pakkred, Nonthaburi Province, Thailand	106,559	Freehold

Commercial properties (own use)	Gross floor area (sq.ft.)	Remaining lease term (years)
Thailand		
Room No. 1B 11-12, 1/F, Mahboonkhrong Center, 444 Phayathai Road, Wangmai, Pathumwan, Bangkok	824	4
Room No. 215, 2/F, 128 Moo 6, Rama II Road, Samaedam, Bangkhuntien, Bangkok	993	16
Room No. 118, 1/F, Central Ramindra, 109/25 Ramindra Road, Anusaowaree, Bangkhen, Bangkok	690	7
Room No. G-11A, G/F, Central Pinklao, 7/232 Baromrajchonee Rd., Arunamarin, Bangkoknoi, Bangkok	1,169	8
Room No. 1008, 1/F, Fashion Island, 5/5 Ramindra Rd., Khannayao, Beungkum, Bangkok	1,059	16
Room No. AF-40A, 1/F, Imperial World Ladproa, 2539 Ladprao Rd., Wangthonglang, Bangkapi, Bangkok	777	14
Room No. G29/2, G/F, Central Plaza Rama III, 79/40 Sathupradit Road, Chongnonsee, Yannawa, Bangkok	1,003	16
Room No. 135B, 1/F, Central Bangna, 1091 Bangna-Trad Road, Prakanong, Bangkok	1,033	17
Room No. GS-C13B, G/F, The Mall Bangkapi, 3522 Lardpao Rd., Bangkapi, Bangkok 10240	754	16
Room No. IS-L8B, 1/F, The Mall Bangkae, 275 Petchakasem Road, Pasecharoen, Bangkok	871	16
Room No. 111, G/F, The Galleria Plaza, 919/1 Silom Road, Bangrak, Bangkok	792	18
Room No. 3C-02, 3/F, Mahboonkhrong Center, 444 Phayathai Road, Wangmai, Patumwan, Bangkok	532	4
Room No. 2PX-19B1, The Mall Nakornratchasima, 1242/2 Mitraparp Rd., Naimuang, Muang District, Nakornratchasima	1,076	20
Room No. G-195, G/F, 2 Mahidol Rd., Tambol Haiya, Amphur Muang, Chiangmai	701	12
Room No. 231, 2/F, 74-75 Central Phuket, Tambol Vichit, Amphur Muang, Phuket	990	13
Room No. BA-R1, G/F, The Mall Taphra, 99 Ratchadapisek Rd., Bukkalo, Thonburi, Bangkok	1,273	13
Room No. G55, Future Park Rangsit, 94 Moo 2, Phaholyothin Road, Prachatipat, Thanyaburi, Pratumthani	2,785	14

Investment properties	Gross floor area (sq.ft.)	Remaining lease term (years)
New Territories		
Unit 3, 2/F, Po Yip Building, 62-70 Texaco Road, Tsuen Wan, New Territories*	15,320	40
Unit No. 9 and 10, 3/F, and roof, Po Wai Building, 12 Tak Yip Street, Yuen Long, N.T.	3,907	40
Singapore		
30 Bideford Road, #26-00 Thongsia Building, Singapore*	4,091	Freehold

* Property disposed after year end

1. CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of shareholders' interest in general. The Board of Directors (the "Board") of the Company is committed to making sure that effective self-regulatory practices exist to protect the interests of the shareholders. These include a Board comprising experienced and high calibre members, board committees and effective internal audit and sound systems of internal controls.

This Corporate Governance Report ("Report") describes the Company's corporate governance practices with specific reference to the code provisions set out in the Code on Corporate Governance Practices ("The Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). During the financial year ended 31st March 2007, the Company complied with the provisions of the Code as set out in Appendix 14 of the Listing Rules, except for the deviations set out in this Report and where there are deviations from the Code, details of such deviations (including considered reasons for such deviations) are set out in this Report.

2. DIRECTORS' AND EMPLOYEES' SECURITIES TRANSACTIONS

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

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

All Directors complied with the provisions of the Model Code during the financial year ended 31st March 2007 and for Directors who retired or resigned during the financial year ended 31st March 2007, up to the date of their respective retirement or resignations.

In addition, the Board also established written guidelines on no less exacting terms than the Model Code for relevant employees of the Company in respect of their dealings in the securities of the Company.

3. BOARD OF DIRECTORS

The Board assumes responsibility for leadership and control of the Group (the Company and its subsidiaries) and is collectively responsible for promoting the success of the Group by directing and supervising its affairs. Every Director is expected to discharge his duties in good faith and up to the standard of prevailing applicable laws and regulations, acting in the best interests of the Group and the Company's shareholders. The Board currently consists of eight members. Among them, four are executive Directors and four are non-executive Directors. Three out of the four non-executive Directors are independent.

The post of Chairman and Chief Executive Officer ("CEO") are separate and are not held by the same individual. The Chairman, Mr. Wong Chong Po, and the CEO, Mr. Joseph C.C. Wong, also Vice Chairman of the Board, are brothers. Both the Chairman and Vice Chairman are responsible for overseeing the function of the Board and formulating overall strategies and policies of the Company. The CEO, supported by other board members and senior management manages the Group's businesses, implementing major strategies, making day-to-day decisions and co-ordinating overall business operations.

The independent non-executive Directors are highly experienced professionals with a broad range of expertise and experience including in areas such as accounting, finance and business. They ensure that the Board maintains high standards of financial and other mandatory reporting and provides adequate checks and balance to safeguard the interests of shareholders in general and the Company as a whole.

During the financial year, there were several changes to the Company's Board. Mr. Wong Yuk Woon, executive Director (Finance & Corporate Affairs) resigned on 1st June 2006. Mr. Lau Tak Bui, Vincent, was appointed as an executive Director of the Company on 1st April 2006 and assumed the function of Finance & Corporate Affairs effective from 1st June 2006. Mr. Lee Shu Chung, Stan, executive Director (Retail Trading and Marketing) resigned on 16th February 2007.

Mr. Kwong Yiu Chung, an independent non-executive Director retired by rotation at the Company's Annual General Meeting on 6th September 2006 after having served on the Board for eleven years. Dr. Kwong Yi Hang, Agnes, was elected as an independent non-executive director at the Company's Annual General Meeting held on 6th September 2006. Dr. Kwong is the daughter of Mr. Kwong.

To assist the Directors to discharge their duties, the Board has established written procedures to enable the Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expense. Directors are encouraged to attend professional development seminars and programmes during the year.

The term of office of the Company's non-executive Directors, including the independent non-executive Directors, is for a term of 3 years, subject to retirement by rotation (pursuant to Bye-law 110(A) of the Company's Bye-laws), whichever is the earlier.

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

Both the Board and management have clearly defined responsibilities under various internal controls and checks and balance mechanisms. The Board is responsible for establishing the strategic direction of the Group, setting objective and business development plans, monitoring the performance of senior management and assuming responsibility for corporate governance. Management is responsible for implementing these strategies and plans, and regular reports on the Company's operations are submitted to the Board. All Directors have access to management and enquiries, explanations, briefings or informal discussions on the Company's operations are welcome.

The Board held a total of ten board meetings during the financial year and up to the date of this Report. At these meetings, different issues and matters were discussed and reviewed including, approval of the 2006 final results and the 2007 interim and final results of the Group; reviewing financial and operating performances of the Group; approval of the disposal of an investment of the Group (classified as financial assets at fair value through profit or loss immediately prior to the disposal); approval of a new continuing connected transaction and the renewal of a continuing connected transaction; and conducting annual review of the effectiveness of the system of internal control of the Company and its subsidiaries for the purposes of Code Provision C.2.1. The Executive Director for Finance & Corporate Affairs and the Company Secretary attended all board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and finance.

Details of the Directors' attendance at the board meetings during the year and up to the date of this Report are set out below. All businesses transacted at the board meetings are well-documented and the records are maintained in accordance with applicable laws and regulations.

Date of board meeting	**Total no. of Directors**	**No. of Directors present**
24th April 2006	10	8
30th May 2006	10	8
19th July 2006	9	7
21st August 2006	9	7
23rd October 2006	9	7
14th December 2006	9	8
26th January 2007	9	6
26th March 2007	8	6
25th April 2007	8	6
23rd July 2007	8	7

Director	**No. of board meetings attended/held in FY2007 and up to the date of this Report**
Executive Directors	
Mr. Wong Chong Po *(Chairman)*	2/10
Mr. Joseph C. C. Wong *(Vice Chairman and CEO)*	10/10
Mr. Chu Kai Wah, Anthony	10/10
Mr. Lau Tak Bui, Vincent *(appointed on 1st April 2006)*	10/10
Mr. Wong Yuk Woon *(resigned on 1st June 2006)*	2/2
Mr. Lee Shu Chung, Stan *(resigned on 16th February 2007)*	7/7
Non-executive Directors	
Mr. Sakorn Kanjanapas	0/10
Mr. Wu Chun Sang *(independent)*	9/10
Professor Wu Chi Man, Lawrence *(independent)*	10/10
Dr. Kwong Yi Hang, Agnes *(independent and appointed on 6th September 2006)*	6/6
Mr. Kwong Yiu Chung *(independent and retired on 6th September 2006)*	4/4

The Board is supplied with relevant information by senior management pertaining to matters to be brought before the Board for decision as well as reports relating to operational and financial performance of the Group before each regular board meeting. At least 14 day's notice of a regular board meeting is given to all Directors to give them the opportunity to attend. Board papers are despatched to the Directors generally at least 3 days before the meeting and in any event as soon as practicable, in all instances, ensuring that they have sufficient time to review the papers and be adequately prepared for the meeting.

The proceedings of the Board at its meetings are generally conducted by the Vice-Chairman of the Company who ensures that sufficient time is allocated for discussion and consideration of each item on the agenda and also equal opportunities are being given to Directors to speak, express their views and share their concerns.

Under the first part of Code Provision E.1.2, the Chairman of the Board should attend annual general meetings. The Chairman of the Board did not attend the annual general meeting of the Company held on 6th September 2006 as he was not in Hong Kong.

ACCOUNTABILITY AND AUDIT

The Board acknowledges its responsibility for the preparation of the Group's accounts and has delegated this responsibility to the Executive Director for Finance and Corporate Affairs ("Finance Director"). The Finance Director and his team are responsible for preparing interim and annual financial statements based on generally accepted accounting principles in Hong Kong ensuring that the financial statements present a fair and true view of the results and the financial position of the Group and that they comply with the disclosure requirements of the Hong Kong Companies Ordinance, the Listing Rules and other applicable laws and regulations. The Finance Director maintains regular communications with the external auditors. He also plays a role in reviewing and making recommendations to the Board on the Group's financial risk management. The Finance Director is also responsible for overseeing the Group's investor relations activities.

A statement by the Group's external auditors, PricewaterhouseCoopers about their reporting responsibilities on the Group's financial statements is set out in the Independent Auditor's Report on page 22.

The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company and its subsidiaries ability to continue as a going concern.

4. AUDITORS' REMUNERATION

The Company appointed PricewaterhouseCoopers as the external auditors of the Company at the 2006 Annual General Meeting until the conclusion of the next Annual General Meeting. During the year, HK$4,237,000 was paid to PricewaterhouseCoopers for the provision of audit services. Details of nature for non-audit related services provided by and the fee paid to PricewaterhouseCoopers are set out as below:

Description	**HK$**
Taxation compliance	1,022,000
Advisory and other services	357,000

The Group also engaged other auditors in Hong Kong and overseas for auditing and miscellaneous services and total fees paid amounted to HK$1,839,000.

5. BOARD COMMITTEES

To assist the Board in the discharge of its duties, the Board is supported by two board committees. Each committee has its defined scope of duties and terms of reference and the committee members are empowered to make decisions on matters within the terms of reference of each committee.

(1) Audit Committee

The Audit Committee comprises three independent non-executive Directors, namely Mr. Wu Chun Sang (Chairman of the Audit Committee), Professor Wu Chi Man, Lawrence, Dr. Kwong Yi Hang, Agnes (appointed on 6th September 2006) and Mr. Kwong Yiu Chung (retired on 6th September 2006).

The terms of reference of the Committee are aligned with the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants and the code provisions set out in the Code. The Committee provides advice and recommendations to the Board and oversees all matters relating to the external auditors, thus it plays an important role in monitoring and safeguarding the independence of external auditors.

The Committee met three times for the period from 1st April 2006 up to and including 31st July 2007 together with the external auditors in two meetings to discuss matters, including, the review of accounting principles and practices adopted by the Group and other financial reporting matters; to ensure the completeness, accuracy and fairness of the financial statements of the Company; to discuss the effectiveness of the systems of internal control throughout the Group; to review all significant business affairs managed by the executive Directors in particular on connected transactions and to review the Group's results for the year ended 31st March 2006 and 2007 before they were presented to the Board of Directors for approval.

Attendance of Directors at the Audit Committee Meetings held on:

12th July 2006	**9th December 2006**
Mr. Wu Chun Sang	Mr. Wu Chun Sang
Mr. Kwong Yiu Chung	Professor Wu Chi Man, Lawrence
Professor Wu Chi Man, Lawrence	Dr. Kwong Yi Hang, Agnes

14th July 2007

Mr. Wu Chun Sang
Professor Wu Chi Man, Lawrence
Dr. Kwong Yi Hang, Agnes

(2) Remuneration Committee

Under Code Provision B.1.1, issuers should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. The Company established a remuneration committee on 20th December 2005 and Mr. Kwong Yiu Chung (retired on 6th September 2006), Mr. Wu Chun Sang, Professor Wu Chi Man, Lawrence (all independent non-executive Directors of the Company) and Mr. Joseph C. C. Wong (Vice Chairman and CEO of the Company) were appointed as committee members. Professor Wu Chi Man, Lawrence is the Chairman of the Remuneration Committee. Upon Mr. Kwong's retirement, Dr. Kwong Yi Hang, Agnes (an independent non-executive Director) was appointed in his place on 6th September 2006.

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

Three committee meetings were held during the financial year and up to the date of this Report. At these meetings, the Committee determined the remuneration package of a certain executive Director, annual bonus entitlement and an annual salary review of the Group's executive Directors. The policy adopted by the Committee was that in general where an increase was to be given, the increase should follow the average rate of salary increase adopted for other general staff. The annual salary of one executive director was revised upwards by 3% in accordance with the average rate adopted for other general staff; the annual salary for one director was revised upwards by around 20% due to increased job responsibilities; and the annual salaries of two directors were kept unchanged after the review.

Attendance of Directors at the Remuneration Committee Meetings held on:

24th April 2006	14th December 2006	23rd July 2007
Professor Wu Chi Man, Lawrence	Professor Wu Chi Man, Lawrence	Professor Wu Chi Man, Lawrence
Mr. Joseph C.C. Wong	Mr. Joseph C.C. Wong	Mr. Joseph C.C. Wong
Mr. Kwong Yiu Chung	Mr. Wu Chun Sang	Mr. Wu Chun Sang
Mr. Wu Chun Sang	Dr. Kwong Yi Hang, Agnes	Dr. Kwong Yi Hang, Agnes

The above board committees report to the Board of Directors on a regular basis. All businesses transacted at the board committee meetings are recorded and minuted. The Terms of Reference of the three board committees are available on the Company's website.

Although the Company has not set up a nomination committee, policies are in place to ensure that the most appropriate candidates are appointed to the Board.

6. INTERNAL CONTROL

The internal control and accounting systems of the Group are designed to provide reasonable assurance that assets are safeguarded against unauthorised use or disposition, transactions are executed in accordance with management's authorisation and the accounting records are reliable for preparing financial information used within the business or for publication and reflecting accountability for assets and liabilities.

In order to establish a sound system of internal controls in safeguarding shareholders' interests and the Group's assets, the Company established a Compliance and Internal Control Department, the key tasks of which include:

- to report to the Board from time to time on the situation/environment of the Group's corporate governance;
- to review cost control and performance efficiency in all operating units;
- to identify the need for improvement in the Group's internal control area and to propose necessary recommendations to the Board; and
- to carry out internal audit work at operating units.

Under Code Provision C.2.1, the Directors should at least annually conduct a review of the effectiveness of the system of internal control of the issuer and its subsidiaries and report to shareholders that they have done so in their Corporate Governance Report. The review should cover all material controls, including financial, operational and compliance controls and risk management functions.

The Board has conducted a review of the effectiveness of the system of internal control of the Company and its subsidiaries and a board meeting was held on 26th March 2007 for such a review for the period from 1st April 2006 up to and including 26th March 2007. The Board reported that there were no significant changes since the beginning of this financial year in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment. According to the opinion of the Board, the Company and its subsidiaries have established sound internal control systems so that the shareholders' investment and the Company's assets are safeguarded.

This was the first meeting of the Board and the effectiveness of the Company and its subsidiaries internal control systems will be reviewed annually.

7. INVESTOR RELATIONS

The Company continues to promote and enhance investor relations and communications with its investors. Communications are maintained with analysts and fund managers to keep them abreast of the Company's development.

8. COMMUNICATION WITH SHAREHOLDERS

The Company attaches great importance to communication with its shareholders and investors. To foster effective communications, the Company provides extensive information in its annual report, interim report and also disseminates information relating to the Group and its business electronically through its website: www.irasia.com/listco/hk/stelux

The Company regards the Annual General Meeting ("AGM") as a platform to provide an important opportunity for direct communications between the Board and the Company's shareholders. All Directors and senior management will make an effort to attend. External auditors will also attend the AGM. All shareholders will be given at least 21 days' notice of the AGM and they are encouraged to attend the AGM and other shareholders' meetings. The Company supports the Corporate Governance Code's principle to encourage shareholders participation.

9. CODE OF CONDUCT

To enhance the ethical standards of employees, the Company has an employee handbook, setting out standards of professional and an ethical code of conduct for all employees of the Group. Employees at all levels are expected to conduct themselves in an honest, diligent and responsible manner.

10. CONCLUSION

The Company believes that corporate governance principles and practices are particularly relevant in an ever changing world, and continues its ongoing efforts to review its corporate governance practices from time to time so as to meet changing circumstances. The Company will endeavour to strengthen and improve the standard and quality of the Company's corporate governance.

PROFILE OF DIRECTORS AND SENIOR EXECUTIVES

Chairman

WONG Chong Po, aged 65, was appointed Chairman of the Group in October 2003. He was the Managing Director of the Group from 1967 to 1995. He is also the Chairman of Bangkok Land Public Company Limited (Thailand).

Vice Chairman and Chief Executive Officer

Joseph C. C. WONG, Masters in Science (Operational Research), aged 47, was appointed a director of the Group in 1986. He was appointed Vice Chairman of the Group in October 2003. He is also the Group CEO. He is a brother of the Chairman.

Directors

CHU Kai Wah, Anthony, BBA, aged 47, was appointed a director of City Chain Company Limited, a wholly owned subsidiary of the Group in 1992. He was also appointed Executive Director for Retail Trading and Property Investment of the Group in 1997. He joined the Group in 1987.

LEE Shu Chung, Stan, BA, aged 47, was appointed a director of City Chain Company Limited, a wholly owned subsidiary of the Group in 1992. He was also appointed Executive Director for Retail Trading and Marketing of the Group in 1997. He joined the Group in 1987. He resigned on 16th February 2007.

LAU Tak Bui, Vincent, aged 49, was appointed a director of the Group in 2006. Following, Mr. Wong Yuk Woon's resignation, he assumed the position of Executive Director for Finance and Corporate Affairs. He is an associate member of the Hong Kong Institute of Certified Public Accountants.

WONG Yuk Woon, CPA, ACIB, aged 61, was appointed an Executive Director of the Group in 1997. He joined the Group in 1992 and was responsible for the Group's Financial and Corporate Affairs until his resignation on 1st June 2006.

Sakorn KANJANAPAS, aged 57, was appointed a director of the Group in 1987. He was previously Managing Director of Bangkok Land Public Company Limited (Thailand). He is a brother of the Chairman. He is a non-executive director.

KWONG Yiu Chung, aged 74, was appointed an independent non-executive director of the Group in 1994 and is Managing Director of his privately owned Excess Trading Company Limited. He retired on 6th September 2006.

WU Chun Sang, aged 50, was appointed a director of the Group in 2004. He is a Macau Registered Auditor. He is also a fellow member of the Association of Chartered Certified Accountants, UK and an associate member of the Hong Kong Institute of Certified Public Accountants. He is an independent non-executive director.

WU Chi Man, Lawrence, aged 49, was appointed a director of the Group in 2005. He is a Professor at the Department of Physics and Material Science at the City University of Hong Kong. He holds a PHD from Bristol University, U.K. and is an associate member of the Royal Aeronautical Society, U.K. He is an independent non-executive director.

KWONG Yi Hang, Agnes, aged 48, was appointed a director of the Group in 2006 and is a director of Pallavi International Limited (Hong Kong), a health consultancy. She holds a PhD in Molecular Immunology from the University of Hong Kong. She is an independent non-executive director.

Group Legal Counsel and Company Secretary

CHONG Sue Peng, Caroline, BA (Law) (Hons), admitted as a Barrister in England and Wales, and, Hong Kong, aged 45, is the Group Legal Counsel and Company Secretary. She joined the Group in 1997 and is responsible for the Group's legal and corporate secretarial matters.

Registered Office
Canon's Court, 22 Victoria Street
Hamilton, HM12, Bermuda

Principal Office
27th Floor, Stelux House
698 Prince Edward Road East
San Po Kong
Kowloon
Hong Kong

Principal Bankers
China Construction Bank (Asia) Corporation Limited
The Bank of East Asia, Limited
Hang Seng Bank Limited

Legal Advisers
Baker & Mckenzie
Johnson Stokes & Master
Pinsent Masons

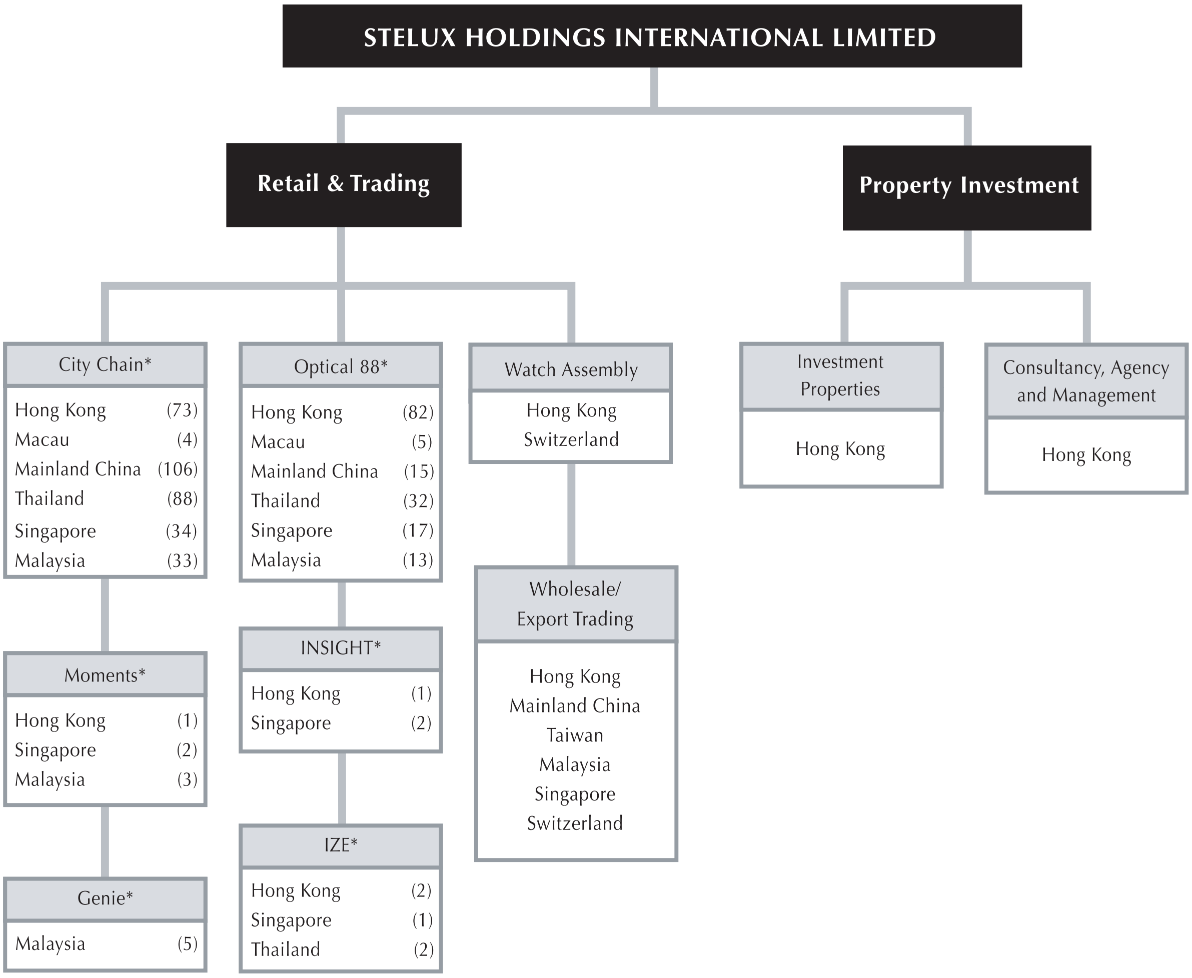
Auditors
PricewaterhouseCoopers

Share Registrar
Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

Branch Share Registrar and Transfer Office
Computershare Hong Kong Investor Services Limited
Room 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

Audit Committee
Mr. Wu Chun Sang (Chairman of Committee)
Prof. Wu Chi Man, Lawrence
Dr. Kwong Yi Hang, Agnes

Remuneration Committee
Prof. Wu Chi Man, Lawrence (Chairman of Committee)
Mr. Joseph C.C Wong
Mr. Wu Chun Sang
Dr. Kwong Yi Hang, Agnes



* Number of shops as at 30th June 2007

CORPORATE CITIZENSHIP AND SOCIAL RESPONSIBILITIES

Here at Stelux, we are acutely aware of our social responsibilities towards those less privileged members of the community. Through the year we have participated in and also partnered several social organizations to support giving to various sections of our community.

Donations in cash and kind, including watches, children's wear and accessories were made to the Hong Chi Association. A donation of T-shirts was also made to the Salvation Army. Stelux and its employees also participated in the "ORBIS Pin Day" making cash donations to support the work at ORBIS.

We continue to promote and adopt a policy of equal opportunities to eliminate any discrimination in sex, family status and disability in employment and the workplace. City Chain Hong Kong, for example, employs persons with disabilities as watch repairers providing them with technical training.

商界展關懷 caringcompany 2006/07

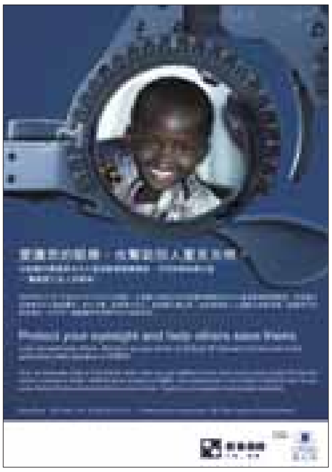
In February 2007, Stelux was presented with the Caring Company Award. The Caring Company Scheme is organized by The Hong Kong Council of Social Service. The goal of the Caring Company Scheme is "to build a caring community spirit through cultivating corporate citizenship and strategic partnership between the business and social service sectors."

To raise public awareness of childhood blindness, Optical 88 Hong Kong sponsored and provided complimentary eye-checks at the ORBIS – Optical 88 Kid's Sight World Blossoms Carnival. Various fund-raising activities have either been launched or planned to support ORBIS.

In November 2006, Optical 88 launched a donation scheme with ORBIS to donate half of the fees it receives from providing eye-checks for its customers to ORBIS. Optical 88 has also helped to raise money by putting donation boxes in its shops to encourage public donations to ORBIS. As a corporate donor, Optical 88 received a Platinum Award from ORBIS for cash donations made.

In conjunction with the Hong Kong Association for Democracy and Peoples Livelihood, Optical 88 Hong Kong also provided 90 senior citizens with free eye-checks under the Senior Citizens Programme.

Our motto at Stelux is "Advancing through our People". We recognize the importance of our employees and their contributions to Stelux. During the year, social activities such as annual family outings and various lifestyle classes like yoga training classes were organized for our employees. In addition, training courses and seminars are organized to foster employee development.



AWARDS

During the year, the achievements of two of our subsidiaries were recognized.

In June this year, Optical 88 Hong Kong was awarded the "Top Service Awards 2007" by Next Magazine for its professional and customer-oriented services.

Stelux' subsidiary, Thong Sia, the Hong Kong distributor for Seiko watches was presented with the "Gold Trusted Brand Award 2007" by Reader's Digest. The results were determined by a consumer survey.

MAINLAND CHINA AND HONG KONG

Equity Investment, Property Investment, Retail and Trading and Watch Assembling

- Stelux Holdings International Ltd
- Stelux Holdings Ltd
- Stelux Properties Ltd
- Optical 88 Ltd
- City Chain Co Ltd
- Stelux Watch Ltd
- Stelux Trading (International) Ltd
  27/F., Stelux House,
  698 Prince Edward Road East,
  San Po Kong, Kowloon, HONG KONG

  3/F., Kader Building
  22 Kai Cheung Road
  Kowloon Bay
  Kowloon, HONG KONG

- Thong Sia Watch Company Limited
  21/F., Stelux House
  698 Prince Edward Road East
  San Po Kong, Kowloon, HONG KONG

- City Chain (Shanghai) Company Limited
  Ting Zi Jian, 2/F
  No. 364 Huaihai Zhong Road, Shanghai
  PRC

- Xiong Teng (Shanghai) Trading Co Ltd
  Room 1402, 6 Ji Long Road
  Shanghai Waigaoqiao Free Trade Zone
  PRC

- City Chain (Guangdong) Company Limited
  Room 607A, Ronghui Building
  302 Zhicheng Road
  Guangzhou Economic & Technological
  Development District
  Guangzhou

- Baoshi (Guangdong) Company Limited
  Room 607B, Ronghui Building
  302 Zhicheng Road
  Guangzhou Economic & Technological
  Development District
  Guangzhou

TAIWAN

Trading
- Thong Tai (Taiwan) Company Limited
  19/F., No. 102
  Sung Lung Road
  Taipei (110)
  TAIWAN

MACAU

Retail and Trading
- City Chain (Macau) Co Ltd
- Optical 88 (Macau) Ltd
  Avenida da Praia Grande
  No. 429, 25º andar D., Macau

MALAYSIA

Retail and Trading
- City Chain (M) Sdn Bhd
- Optical 88 Eyecare (M) Sdn Bhd
  Unit 10.01, 10th Floor
  MCB Plaza, 6 Changkat Raja Chulan
  50200 Kuala Lumpur
  MALAYSIA
- Thong Sia Sdn Bhd
  Suite 2601-04 Central Plaza
  34, Jalan Sultan Ismail
  50250 Kuala Lumpur
  MALAYSIA

THAILAND

Retail and Trading
- City Chain (Thailand) Co Ltd
- Optical 88 (Thailand) Co Ltd
  47/543-544, Fl. 6 Jeneva Building
  Moo 3, Chaeng Wattana Road
  Ban-Mai, Pak-Kred
  Nonthaburi 11120
  THAILAND

SINGAPORE

Equity Investment, Retail and Trading
- Stelux Watch Holdings Ltd (in member's voluntary liquidation)
- City Chain Stores (S) Pte Ltd
- Optical 88 (S) Pte Ltd
  315 Outram Road #10-03
  Tan Boon Liat Building
  Singapore 169074
  SINGAPORE
- Thong Sia Company (Singapore) Private Limited
  30 Bideford Road, #04-00
  Thongsia Building
  Singapore 229922

SWITZERLAND

Watch Assembling and Trading
- Universal Geneve S.A.
- Solvil et Titus S.A.
- Pronto Watch S.A.
  6 Route des Acacias
  1227 Les Acacias – Geneve
  SWITZERLAND