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If you are in any doubt about this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in STELUX Holdings International Limited ("Company"), you should at once hand this circular to the purchaser or to the transferee or to the bank, a licensed securities dealer or other agent through whom the sale or the transfer was effected for transmission to the purchaser or the transferee.

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STELUX Holdings International Limited

寶光實業(國際)有限公司*

website: <http://www.irasia.com/listco/hk/stelux>
(Incorporated in Bermuda with limited liability)

(Stock Code: 84)

**CONNECTED AND DISCLOSEABLE TRANSACTIONS
ACQUISITION OF 100%, 96.0% AND 94.4% EQUITY INTERESTS RESPECTIVELY IN
THONG SIA COMPANY (SINGAPORE) PTE LIMITED,
THONG SIA WATCH COMPANY LIMITED AND THONG SIA SDN BHD,
AND PROVISION OF THE OUTSTANDING LOANS AND
THE SHL GUARANTEE IN RESPECT THEREOF AND
PROVISION OF THE CORPORATE GUARANTEE AND
MORTGAGE ASSETS AND THE SHL INDEMNITY IN RESPECT THEREOF
FOLLOWING THE ACQUISITION
AND
CONTINUING CONNECTED TRANSACTIONS
FOLLOWING THE ACQUISITION
AND
CHANGES IN EXISTING CONTINUING CONNECTED TRANSACTIONS
FOLLOWING THE ACQUISITION**

Financial Adviser to STELUX Holdings International Limited

MANAGEMENT CAPITAL LIMITED

**Independent financial adviser to the Independent Board Committee
and Independent Shareholders of STELUX Holdings International Limited**



A letter from the Independent Board Committee is set out on pages 25 and 26 of this circular.

A letter from Access Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 27 to 43 of this circular.

A notice convening a special general meeting of the Company to be held at 5th Floor, Stelux House, 698 Prince Edward Road East, San Po Kong, Kowloon, Hong Kong on 22 September 2005 at 11:00 a.m. is set out on page 50 of this circular. A form of proxy for use at the special general meeting is enclosed. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so wish.

* For identification purpose only

31 August 2005

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DEFINITIONS

In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:

“Access Capital”	Access Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Agreement, the TSCL Agreement and the Mengiwa Agreement and a licensed corporation under the SFO permitted to engage in types 1, 4, 6 and 9 regulated activities under the SFO
“Agreement”	the sale and purchase agreement dated 10 August, 2005 entered into between SHL and Yee Hing and Anant Kanjanapas (alias Wong Chong Po, the chairman and director of the Company) acting in his capacity as the sole executor of the Estate
“associate”	has the meaning as given to it in the Listing Rules
“Board”	The board of Directors
“Company”	STELUX Holdings International Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“Directors”	the directors (including the independent non-executive directors) of the Company
“Estate”	the estate of Mr Wong Chue Meng, which holds approximately 70% of the issued share capital of the Company (through various holding companies including Yee Hing which is interested in approximately 44% of the issued share capital of the Company) as at the Latest Practicable Date
“Estate Sale Equity”	the equity interest of 40.0%, 38.0% and 40.4% in Thong Sia Company (Singapore) Pte Limited, Thong Sia Watch Company Limited and Thong Sia Sdn Bhd respectively originally held by the Estate and to be sold by the Estate to SHL under the Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China

DEFINITIONS

“Independent Board Committee”	the independent board committee of the Company comprising Mr Kwong Yiu Chung and Mr Wu Chun Sang, has been formed by the Board to advise the Independent Shareholders in respect of the Agreement
“Independent Shareholders”	the Shareholders other than Yee Hing, the Estate and Mr Anant Kanjanapas (alias Wong Chong Po) and their respective associates (as defined in the Listing Rules), in particular Mr Chumphol Kanjanapas (alias Joseph C.C. Wong), the brother of Mr Anant Kanjanapas, as an associate (as defined in the Listing Rules) of Mr Anant Kanjanapas will abstain from voting at the SGM
“Latest Practicable Date”	26 August 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mengiwa”	Mengiwa Private Limited, a company incorporated in Singapore and is owned as to 55% by the Estate, as to 2.5% by Mr Wong Chue Meng’s daughter, Ms Swatsri Kanjanapas and as to the balance of 42.5% by third parties independent of the Group and connected persons (as defined in the Listing Rules) of the Group
“Mengiwa Agreement”	the agreement dated 10 August, 2005 entered into between SHL, Thong Sia Company (Singapore) Pte Limited and Mengiwa
“Sale Equity”	the aggregate equity interest in the Thong Sia Companies to be acquired by SHL under the Agreement, comprising the Yee Hing Sale Equity and the Estate Sale Equity
“Seiko Watch Group”	the business subsidiaries of Seiko Corporation, which was established since 1881 and is a listed company in Japan, including principally Seiko Watch Corporation (including its predecessor) and Seiko Clock Inc., that are engaged in the sale and marketing of several Japanese branded watches, clocks and timepieces including Seiko, Credor, Pulsar, Alba and Lorus
“SFO”	the Securities and Futures Ordinance (chapter 571 of the Laws of Hong Kong)
“SGM”	a special general meeting of the Company to be convened to approve the Agreement, the TSCL Agreement and the Mengiwa Agreement and the transactions contemplated thereunder

DEFINITIONS

“SHL”	Stelux Holdings Limited, an indirect wholly-owned subsidiary of the Company
“Shares”	shares of par value of HK\$0.10 each in the issued share capital of the Company
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“TSCL”	Thong Sia Company Limited, a company incorporated in Hong Kong and is owned as to 38% by the Estate, as to 2% by Ms Supanee Gazeley, as to 58% by the four original founders (including their successors) of the Thong Sia Companies and as to the balance of 2% by a third party independent of the Group and connected person (as defined in the Listing Rules) of the Group
“TSCL Agreement”	the agreement dated 10 August, 2005 entered into between, amongst others, SHL, Thong Sia Company (Singapore) Pte Limited and TSCL
“TSICL”	Thong Shing Investment Company Limited, a company incorporated in Hong Kong, and is a wholly-owned subsidiary of TSCL
“Thong Sia Companies”	Thong Sia Company (Singapore) Pte Limited, Thong Sia Watch Company Limited and Thong Sia Sdn Bhd
“PRC”	People’s Republic of China
“Vendors”	Yee Hing and Anant Kanjanapas (alias Wong Chong Po, the chairman and director of the Company) acting in his capacity as the sole executor of the Estate
“Vision Pro Group”	Vision Pro Trading Company Limited (formerly known as Pro Vision Trading Company Limited), a company incorporated in Hong Kong, and its subsidiaries. Vision Pro Trading Company Limited is owned as to 60% indirectly by Yee Hing and as to 40% by TSCL
“Yee Hing”	Yee Hing Company Limited, a company incorporated under the laws of Hong Kong, and the substantial shareholder (as defined in the Listing Rules) of the Company

DEFINITIONS

“Yee Hing Sale Equity”	the equity interest of 60.0%, 58.0% and 54.0% in Thong Sia Company (Singapore) Pte Limited, Thong Sia Watch Company Limited and Thong Sia Sdn Bhd respectively recently acquired by Yee Hing and to be sold by Yee Hing to SHL under the Agreement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“MYR”	Malaysian Ringgit, the lawful currency of Malaysia
“S\$”	Singapore dollars, the lawful currency of Singapore
“%”	Percentage

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

STELUX Holdings International Limited

寶光實業(國際)有限公司*

website: <http://www.irasia.com/listco/hk/stelux>
(Incorporated in Bermuda with limited liability)

(Stock Code: 84)

Board of Directors

Executive Directors:

Wong Chong Po (*Chairman*)

Chumphol Kanjanapas, alias Joseph C.C. Wong
(*Vice Chairman and Chief Executive Officer*)

Anthony Chu Kai Wah

Stan Lee Shu Chung

Wong Yuk Woon

Non-executive Directors:

Sakorn Kanjanapas

Kwong Yiu Chung (*independent*)

Wu Chun Sang (*independent*)

Registered office:

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Principal office:

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

31 August 2005

To the Shareholders

Dear Sir or Madam,

**CONNECTED AND DISCLOSEABLE TRANSACTIONS
ACQUISITION OF 100%, 96.0% AND 94.4% EQUITY INTERESTS
RESPECTIVELY IN THONG SIA COMPANY (SINGAPORE) PTE LIMITED,
THONG SIA WATCH COMPANY LIMITED AND THONG SIA SDN BHD,
AND PROVISION OF THE OUTSTANDING LOANS AND
THE SHL GUARANTEE IN RESPECT THEREOF AND
PROVISION OF THE CORPORATE GUARANTEE AND
MORTGAGE ASSETS AND THE SHL INDEMNITY IN RESPECT
THEREOF FOLLOWING THE ACQUISITION
AND
CONTINUING CONNECTED TRANSACTIONS
FOLLOWING THE ACQUISITION
AND
CHANGES IN EXISTING CONTINUING CONNECTED TRANSACTIONS
FOLLOWING THE ACQUISITION**

1. INTRODUCTION

The Company announced that on 10 August 2005, SHL, an indirect wholly-owned subsidiary of the Company entered into the Agreement with Yee Hing and Mr Anant

* For identification purpose only

LETTER FROM THE BOARD

Kanjanapas (alias Wong Chong Po, the chairman and director of the Company) acting in his capacity as the sole executor of the Estate, pursuant to which SHL has agreed to acquire from Yee Hing and the Estate respectively the Yee Hing Sale Equity and the Estate Sale Equity, for a total consideration of HK\$55,267,775 (as to HK\$34,000,010 for the Yee Hing Sale Equity and as to HK\$21,267,765 for the Estate Sale Equity).

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

In connection with the Agreement, SHL entered into the TSCL Agreement on 10 August 2005 with, amongst others, Thong Sia Company (Singapore) Pte Limited and TSCL, pursuant to which TSCL has agreed to, amongst other matters, continue to provide a loan (amounting to HK\$27,000,000 as at the completion date of the Agreement) to Thong Sia Company (Singapore) Pte Limited after completion of the Agreement and Thong Sia Company (Singapore) Pte Limited has agreed to, amongst other matters, repay such loan not later than 18 months after completion of the Agreement. Furthermore, SHL has agreed to, amongst other matters, guarantee the repayment obligations of Thong Sia Company (Singapore) Pte Limited in respect of the said loan owed to TSCL.

In connection with the Agreement, SHL entered into the Mengiwa Agreement on 10 August 2005 with Thong Sia Company (Singapore) Pte Limited and Mengiwa, pursuant to which Mengiwa has agreed to, amongst other matters, continue to provide (i) a loan amounting to S\$3,182,829 (equivalent to approximately HK\$15,150,266) as at the completion date of the Agreement to Thong Sia Company (Singapore) Pte Limited upon completion of the Agreement and (ii) its corporate guarantee and mortgage assets to a third party bank in Singapore to support the existing general banking facilities of S\$2.0 million (equivalent to approximately HK\$9,520,000) overdraft facilities and S\$2.0 million (equivalent to approximately HK\$9,520,000) revolving loan facilities both granted by such third party bank to Thong Sia Company (Singapore) Pte Limited upon completion of the Agreement and Thong Sia Company (Singapore) Pte Limited has agreed to, amongst other matters, repay such loan owed to Mengiwa and release the said corporate guarantee and mortgage assets provided by Mengiwa to the said third party bank not later than 18 months after completion of the Agreement. Furthermore, SHL has agreed to, amongst other matters, guarantee the repayment obligations of Thong Sia Company (Singapore) Pte Limited in respect of the said loan owed to Mengiwa and to indemnify Mengiwa with respect to all its liabilities under the provision of the said corporate guarantee and mortgage assets.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with information regarding, amongst other matters, the Agreement, the TSCL Agreement, the Mengiwa Agreement, the Yee Hing Undertaking, the continuing connected transactions following the Acquisition, the advice from the Independent Board Committee to the Independent Shareholders, the advice of Access Capital in connection with the Agreement, the TSCL Agreement and the Mengiwa Agreement and the notice of the SGM.

2. THE AGREEMENT

Date

10 August 2005

Parties

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

Background of the Agreement

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

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

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

LETTER FROM THE BOARD

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

Transactions

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

TSCL and Mengiwa have granted loans, without any interest charges, on a non-secured basis to Thong Sia Company (Singapore) Pte Limited over the past 3 years to help finance its general funding needs. Based on the audited accounts of Thong Sia Company (Singapore) Pte Limited as at 31 December 2004, the loans granted by TSCL and Mengiwa amounted to an aggregate amount of S\$9,905,518 (equivalent to approximately HK\$47,150,266) as to HK\$32 million owed to TSCL and S\$3,182,829 (equivalent to approximately HK\$15,150,266) owed to Mengiwa. As part of the transactions contemplated under the Agreement, Thong Sia Company (Singapore) Pte Limited will repay as to HK5.0 million to TSCL upon completion of the Agreement. Pursuant to the Agreement, the Vendors have warranted that Thong Sia Company (Singapore) Pte Limited will have outstanding loans (the "Outstanding Loans") of approximately S\$8,855,098 (equivalent to approximately HK\$42,150,266), comprising HK\$27 million owed to TSCL and S\$3,182,829 (equivalent to approximately HK\$15,150,266) owed to Mengiwa as at the completion date of the Agreement. The aggregate amount of Outstanding Loans will be equivalent to the outstanding principal of such loans as at the completion date of the Agreement. SHL and the Vendors agreed that Thong Sia Company (Singapore) Pte Limited will repay the Outstanding Loans not later than 18 months after completion of the Agreement, and the Outstanding Loans will be interest bearing, at an annual rate of 2% below the prime or best-lending rate quoted by a leading local bank in Hong Kong and Singapore respectively for the HK\$ and S\$ portion. Save for the Outstanding Loans, none of any of the Thong Sia Companies has outstanding amount due to or due from its original founders, Yee Hing or any other connected persons (as defined in the Listing Rules) of the Group and their respective associates following the completion of the Agreement.

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Yee Hing has undertaken (the “Yee Hing Undertaking”) to SHL for a period of three years following the date of completion of the Agreement that the sole distributorship of the Thong Sia Companies regarding the branded clocks, watches and timepieces of Seiko Watch Group in Singapore, Hong Kong and Malaysia will remain in place (unless as a result of willful default on the part of the Thong Sia Companies). In the event of a breach of the Yee Hing Undertaking, Yee Hing will pay an amount equal to the difference between the net tangible asset value of the Thong Sia Companies (with respect to the audited accounts of Thong Sia Companies, to be prepared on a combined basis, as at the completion date of the Agreement) attributable to the Sale Equity and the Sale Equity Consideration. In the event of a breach of the Yee Hing Undertaking, the Company will publish an announcement in the newspaper and will include the details in its subsequent annual report and accounts and the independent non-executive Directors will provide an opinion in the Company’s next published annual report and accounts as to whether Yee Hing has fulfilled its obligations under the Yee Hing Undertaking.

Assets to be acquired

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

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

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

Despite the fact that there have been no formal distributorship agreements with Seiko Watch Group, each of the Thong Sia Companies (including the predecessor of Thong Sia Watch Company Limited) has a longstanding distributor relationship

LETTER FROM THE BOARD

with Seiko Watch Group. The Vendors have made representations to SHL under the Agreement that, to the best of their knowledge, information and belief, each of the Thong Sia Companies is currently the sole distributor of the branded watches, clocks and timepieces of Seiko Watch Group for the relevant country in which each of them operates.

Consideration

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

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

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

Basis of determination of the Sale Equity Consideration

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

LETTER FROM THE BOARD

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

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

LETTER FROM THE BOARD

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

The Sale Equity Consideration also represents an approximately 64% premium over the combined net asset value of the Thong Sia Companies attributable to the Sale Equity of the equivalent of approximately HK\$33,760,052 as at 31 December 2004. The Board considers it to be fair and reasonable to pay a premium over the net asset value of the Thong Sia Companies attributable to the Sale Equity as the business of Thong Sia Companies is non-asset based in nature i.e. the profitability of Thong Sia Companies is not directly related to the asset size of Thong Sia Companies. The management of Thong Sia Companies has confirmed to the Company that no dividend will be distributed by the Thong Sia Companies before completion of the Agreement.

Completion

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

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

If either of the abovementioned conditions is not fulfilled on or before 31 December 2005 or such later date as the Vendors and SHL may agree, the Agreement shall cease and terminate and none of the parties thereto shall have any claim against the others save for the deposit of HK\$10 million with interest, which will be refunded to SHL.

Effects on the earnings and the assets and liabilities of the Group

Since the consideration payable under the Agreement will be funded out of the Group's internal cash resources, the Acquisition will reduce the cash holdings of the Group.

Upon completion of the Agreement, Thong Sia Company (Singapore) Pte Limited, Thong Sia Watch Company Limited and Thong Sia Sdn Bhd will become respectively the 100%, 96.0% and 94.4% owned subsidiary of the Company. Accordingly, the profit and loss generated by the Thong Sia Companies from the

LETTER FROM THE BOARD

completion date of the Agreement will be consolidated into the Group; and the net assets of the Group will then be changed by the amount of combined retained earnings of the Thong Sia Companies attributable to the Sale Equity from the completion date of the Agreement.

3. REASONS FOR AND BENEFITS OF ENTERING INTO THE AGREEMENT

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

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

4. CONNECTED AND DISCLOSEABLE TRANSACTIONS WITH RESPECT TO THE ACQUISITION

Since (i) the Estate (through various holding companies including Yee Hing which is interested in approximately 44% of the issued share capital of the Company) is the controlling shareholder (as defined in the Listing Rules) of the Company, and (ii) Mr Anant Kanjanapas (alias Wong Chong Po) is the chairman and director of the Company, the Estate, Yee Hing and Mr Anant Kanjanapas (alias Wong Chong Po) are connected persons of the Group for the purpose of the Listing Rules. Based on the applicable size tests performed regarding the Acquisition, the relevant percentage ratios under Rule 14.07 of the Listing Rules exceed 5% but are less than 25%. The applicable percentage ratios under Rule 14A.32 of the Listing Rules are more than 2.5% and the Sale Equity Consideration is more than HK\$10.0 million.

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

LETTER FROM THE BOARD

5. CONTINUING CONNECTED TRANSACTIONS FOLLOWING THE ACQUISITION

CONTINUAL PURCHASES OF OPTICAL PRODUCTS BY THONG SIA COMPANY (SINGAPORE) PTE LIMITED AND THONG SIA SDN BHD FROM VISION PRO GROUP

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

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

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

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

LETTER FROM THE BOARD

The Company proposes to set the maximum aggregate annual consideration for the continual purchases of optical products by Thong Sia Company (Singapore) Pte Limited and Thong Sia Sdn Bhd at HK\$2.00 million, HK\$2.50 million and HK\$2.75 million for each of the three financial years ending 31 March 2008 (the "Caps"). If such Caps are exceeded during the term of the Continual Purchases from Vision Pro Group for the relevant financial year, the Company will re-comply with the requirements, where applicable, under Rule 14A.35 of the Listing Rules. The Caps were determined on the following basis:

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

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

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

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

Thong Sia Company (Singapore) Pte Limited has been leasing Units #01-01 and #04-00 of Thongsia Building, No.30 Bideford Road, Singapore (the "SIN Properties") from Mengiwa as its current office, showroom, warehouse and service centre for about 15 years. The Directors consider it to be in the interests of the Company and the Shareholders as a whole for Thong Sia Company (Singapore) Pte Limited to continue to lease the SIN Properties from Mengiwa after completion of the Agreement as long as Thong Sia Company (Singapore) Pte Limited continues to pay rent rates in line with the market rent rates for such premises so as to avoid the relocation costs which otherwise the Group might incur.

LETTER FROM THE BOARD

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

On 3 August 2005, Thong Sia Company (Singapore) Pte Limited, as tenant has entered into a tenancy agreement (the "TSSIN Tenancy Agreement") with Mengiwa as landlord in respect of the lease of the SIN Properties for a period of 3 years from 1 July 2005 up to and including 30 June 2008. The monthly rent and the management and air-conditioning charges under the TSSIN Tenancy Agreement were determined with reference to those payable by the other tenants of Thongsia Building and the floor size of the SIN Properties. The rent payable by Thong Sia Company (Singapore) Pte Limited is in line with the prevailing market rent based on the independent valuations by Jones Lang Lasalle made on 15 July 2005. Accordingly, the Directors consider that the terms of the TSSIN Tenancy Agreement are fair and reasonable and the TSSIN Tenancy Agreement is in the interests of the Company and the Shareholders as a whole.

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

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

Thong Sia Watch Company Limited has been leasing Units A2, E2 and E3 on 2nd floor of Star House, No.3 Salisbury Road, Tsimshatsui, Kowloon, Hong Kong (the "HK Properties") from TSICL as its current office and service centre since 2002. The Directors consider it to be in the interests of the Company and the Shareholders as a whole for Thong Sia Watch Company Limited to continue to lease the HK Properties from TSICL after completion of the Agreement as long as Thong Sia Watch Company Limited continues to pay rent rates in line with the market rent rates for such premises so as to avoid the relocation costs which otherwise the Group might incur.

LETTER FROM THE BOARD

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

On 20 July 2005, Thong Sia Watch Company Limited, as tenant has entered into a tenancy agreement (the "TSHK Tenancy Agreement") with TSICL as landlord in respect of the lease of the HK Properties for a period of 3 years from 1 July 2005 up to and including 30 June 2008. The monthly rent under the TSHK Tenancy Agreement was determined with reference to those payable by the other tenants of Star House and the floor size of the HK Properties. The rent payable by Thong Sia Watch Company Limited for the HK Properties is in line with the open market rent based on the independent valuations by C S Surveyors made on 30 June 2005. Accordingly, the Directors consider that the terms of the TSHK Tenancy Agreement are fair and reasonable and the TSHK Tenancy Agreement is in the interests of the Company and the Shareholders as a whole.

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

6. PROVISION OF THE OUTSTANDING LOANS AND THE SHL GUARANTEE IN RESPECT THEREOF AND PROVISION OF THE CORPORATE GUARANTEE AND MORTGAGE ASSETS AND THE SHL INDEMNITY IN RESPECT THEREOF FOLLOWING THE ACQUISITION

PROVISION OF THE OUTSTANDING LOANS BY TSCL AND MENGIWA

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

LETTER FROM THE BOARD

As a result of the negotiations with respect to the Acquisition, Yee Hing has procured each of TSCL and Mengiwa to continue to provide its portion of the Outstanding Loans to Thong Sia Company (Singapore) Pte Limited for a period of not more than 18 months after completion of the Agreement on a non-secured basis on the condition that SHL guarantees the repayment obligations of Thong Sia Company (Singapore) Pte Limited in respect of the Outstanding Loans. Within the said 18-month period, the Group expects to be able to arrange appropriate financing through its internal resources to repay the Outstanding Loans.

There was no loan agreement between Thong Sia Company (Singapore) Pte Limited and each of TSCL and Mengiwa regarding the Outstanding Loans. In connection with the Agreement, the terms of the provision of the HK\$ portion and the S\$ portion of the Outstanding Loans are recorded in the TSCL Agreement and the Mengiwa Agreement respectively as set out in the paragraphs below entitled "THE TSCL AGREEMENT" and "THE MENGIWA AGREEMENT".

CONTINUAL PROVISION OF THE CORPORATE GUARANTEE AND MORTGAGE ASSETS BY MENGIWA

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

As a result of the negotiations with regard to the Acquisition, Yee Hing has procured Mengiwa to continue to provide the Corporate Guarantee and Mortgage Assets for a period of not more than 18 months after completion of the Agreement to support the said existing banking facilities on the condition that SHL indemnifies Mengiwa for all its liabilities under the Corporate Guarantee and Mortgage Assets. Thong Sia Company (Singapore) Pte Limited has agreed to release the Corporate Guarantee and Mortgage Assets within 18 months after completion of the Agreement.

LETTER FROM THE BOARD

There was no agreement between Thong Sia Company (Singapore) Pte Limited and Mengiwa regarding such provision of the Corporate Guarantee and Mortgage Assets by Mengiwa to support the said existing banking facilities. In connection with the Agreement, the terms of the provision of the Corporate Guarantee and Mortgage Assets are recorded in the Mengiwa Agreement.

THE TSCL AGREEMENT

Date

10 August 2005

Parties

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

Subject matter

In connection with the Agreement, TSCL has agreed to continue to provide its HK\$ portion of the Outstanding Loans to Thong Sia Company (Singapore) Pte Limited for a period of not more than 18 months after completion of the Agreement on a non-secured basis.

The TSCL Agreement sets out the terms of the provision of such HK\$ portion of the Outstanding Loans by TSCL as set out in the paragraph above entitled "Transactions" and pursuant to which SHL has agreed to guarantee the repayment obligations of Thong Sia Company (Singapore) Pte Limited with respect to the HK\$ portion of the Outstanding Loans owed to TSCL.

If Thong Sia Company (Singapore) Pte Limited defaults in making the repayment of the HK\$ portion of the Outstanding Loans within 18 months after completion of the Agreement, TSCL will have recourse to repayment by SHL of the outstanding HK\$ portion of Outstanding Loans owed to TSCL pursuant to the TSCL Agreement.

Duration

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

LETTER FROM THE BOARD

Condition precedent

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

THE MENGIWA AGREEMENT

Date

10 August 2005

Parties

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

Subject matter

In connection with the Agreement, Mengiwa has agreed to continue to (i) provide its S\$ portion of the Outstanding Loans to Thong Sia Company (Singapore) Pte Limited on a non-secured basis; and (ii) provide the Corporate Guarantee and Mortgage Assets to support the aforesaid banking facilities of Thong Sia Company (Singapore) Pte Limited for nil consideration, both for a period of not more than 18 months after completion of the Agreement.

The Mengiwa Agreement sets out the terms of provision of such S\$ portion of the Outstanding Loans by Mengiwa as set out in the paragraph above entitled "Transactions" and the provision of the Corporate Guarantee and Mortgage Assets by Mengiwa as set out in the paragraph above entitled "CONTINUAL PROVISION OF THE CORPORATE GUARANTEE AND MORTGAGE ASSETS BY MENGIWA". Pursuant to the Mengiwa Agreement, SHL has agreed to (i) guarantee the repayment obligations of Thong Sia Company (Singapore) Pte Limited with respect to the S\$ portion of the Outstanding Loans owed to Mengiwa; and (ii) indemnify (the "SHL Indemnity") Mengiwa for all its liabilities under the Corporate Guarantee and Mortgage Assets.

LETTER FROM THE BOARD

If Thong Sia Company (Singapore) Pte Limited defaults in making the repayment of the S\$ portion of the Outstanding Loans within 18 months after completion of the Agreement, Mengiwa will have recourse to repayment by SHL of the outstanding S\$ portion of Outstanding Loans owed to Mengiwa pursuant to the Mengiwa Agreement. Pursuant to the Mengiwa Agreement, SHL has to indemnify Mengiwa against all actions, claims, demands, liabilities, losses, damages, costs, charges and expenses of whatever nature which may result or which Mengiwa may sustain, suffer or incur in connection with or arising in any way whatsoever out of the Corporate Guarantee and Mortgage Assets, and to pay to Mengiwa all moneys and liabilities which Mengiwa shall pay or become liable to pay or sustain, suffer or incur under or by reason of or in connection with the Corporate Guarantee and Mortgage Assets.

Duration

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

Condition precedent

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

7. CONNECTED AND DISCLOSEABLE TRANSACTIONS WITH RESPECT TO THE TSCL AGREEMENT AND THE MENGIWA AGREEMENT

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

LETTER FROM THE BOARD

Since the Estate holds more than 30% equity interests in each of TSCL and Mengiwa and pursuant to Rule 14A.26 of the Listing Rules, the amount of the Outstanding Loans and the Corporate Guarantee and Mortgage Assets shall be aggregated. Based on the applicable size tests performed regarding the provision of the Outstanding Loans and the Corporate Guarantee and Mortgage Assets, the relevant percentage ratio under Rule 14.07 of the Listing Rules exceeds 5% but is less than 25%. Accordingly and pursuant to Rule 14A.63 of the Listing Rules, the transactions contemplated under the provision of the Outstanding Loans together with the SHL Guarantee in respect thereof and the continual provision of the Corporate Guarantee and Mortgage Assets together with the SHL Indemnity in respect thereof shall constitute connected and discloseable transactions for the Company and will be subject to the reporting and announcement requirements under Chapter 14 and Chapter 14A of the Listing Rules and also subject to the approval of the Independent Shareholders in the SGM by poll.

8. SPECIAL GENERAL MEETING

A notice of the SGM to be held at 5th Floor, Stelux House, 698 Prince Edward Road East, San Po Kong, Kowloon, Hong Kong at 11:00 a.m. on 22 September 2005 is set out on page 50 of this circular. At the SGM, an ordinary resolution will be proposed to approve the Agreement, the TSCL Agreement and the Mengiwa Agreement and the transactions contemplated thereunder.

The Estate, Yee Hing and Mr Anant Kanjanapas (alias Wong Chong Po) and their respective associates (as defined in the Listing Rules) including Mr Chumphol Kanjanapas (alias Joseph C.C. Wong), the brother of Mr Anant Kanjanapas, as an associate (as defined in the Listing Rules) of Mr Anant Kanjanapas will abstain from voting at the SGM.

A form of proxy for use at the SGM is enclosed. Whether or not you intend to attend the SGM, you are requested to complete the enclosed form of proxy and return it to the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon not later than 48 hours before the time of the SGM. The completion and return of the form of proxy will not preclude you from attending and voting in person should you so wish. In the event that you attend the SGM in person after having returned the form of proxy, your form of proxy will be deemed to have been revoked.

The Company's Bye-laws 78, 79 and 80 set out the procedure by which Shareholders may demand a poll:

(a) By-law 78

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:—

LETTER FROM THE BOARD

- (i) by the Chairman of the meeting; or
- (ii) by at least three members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (iii) by any member or a members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) by a member or members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Unless a poll be so demanded and not withdrawn, a declaration by the Chairman that a resolution has on a show of hands been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution.

(b) By-law 79

If a poll is demanded as aforesaid, it shall (subject as provided in By-law 80) be taken in such manner (including the use of ballot or voting papers or tickets) and at such time and place, not being more than thirty days from the date of the meeting or adjourned meeting at which the poll was demanded, as the Chairman directs. No notice need be given of a poll not taken immediately. The result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The demand for a poll may be withdrawn, with the consent of the Chairman, at any time before the close of the meeting or the taking of the poll, whichever is the earlier.

(c) By-law 80

Any poll duly demanded on the election of a Chairman of a meeting or on any question of adjournment shall be taken at the meeting and without adjournment.

9. RECOMMENDATION

The Directors consider the terms and conditions of the Agreement to be on normal commercial basis and are fair and reasonable and that the Agreement is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

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

Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM.

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

Your attention is drawn to the letter from the Independent Board Committee set out on pages 25 and 26 of this circular and the letter of advice from Access Capital on page 27 to 43 of this circular.

10. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular.

Yours faithfully,
For and on behalf of the Board of
STELUX Holdings International Limited
Joseph C.C. Wong
Vice Chairman and Chief Executive Officer

STELUX Holdings International Limited

寶光實業(國際)有限公司*

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

31 August 2005

To the Independent Shareholders

Dear Sir or Madam,

**CONNECTED AND DISCLOSEABLE TRANSACTIONS
ACQUISITION OF 100%, 96.0% AND 94.4% EQUITY INTERESTS RESPECTIVELY IN
THONG SIA COMPANY (SINGAPORE) PTE LIMITED, THONG SIA WATCH
COMPANY LIMITED AND THONG SIA SDN BHD, AND PROVISION OF THE
OUTSTANDING LOANS AND
THE SHL GUARANTEE IN RESPECT THEREOF AND
PROVISION OF THE CORPORATE GUARANTEE AND
MORTGAGE ASSETS AND THE SHL INDEMNITY IN RESPECT THEREOF
FOLLOWING THE ACQUISITION
AND
CONTINUING CONNECTED TRANSACTIONS
FOLLOWING THE ACQUISITION
AND
CHANGES IN EXISTING CONTINUING CONNECTED TRANSACTIONS
FOLLOWING THE ACQUISITION**

We refer to the circular dated 31 August 2005 of the Company (“Circular”) of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the terms of the Agreement, the TSCL Agreement and the Mengiwa Agreement and to advise the Independent Shareholders whether, in our opinion, the terms of the Agreement, the TSCL Agreement and the Mengiwa Agreement are fair and reasonable so far as the Independent Shareholders are concerned. Access Capital has been appointed as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Agreement, the TSCL Agreement and the Mengiwa Agreement.

We wish to draw your attention to the letter from the Board set out on pages 5 to 24 of the Circular which contains, inter alia, information about the Agreement, the TSCL Agreement and the Mengiwa Agreement and the letter of advice from Access Capital set out on pages 27 to 43 of the Circular which contains its advice in respect of the terms of the Agreement, the TSCL Agreement and the Mengiwa Agreement and the additional information set out in the appendix to the Circular.

* For identification purpose only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the reasons for and benefits of entering into the Agreement, the TSCL Agreement and the Mengiwa Agreement and considering the principal factors taken into account by Access Capital in arriving at its opinion regarding the Agreement, the TSCL Agreement and the Mengiwa Agreement as set out in the letter from Access Capital on pages 27 to 43 of the Circular, we consider that the terms of the Agreement, the TSCL Agreement and the Mengiwa Agreement are fair and reasonable and the Agreement, the TSCL Agreement and the Mengiwa Agreement are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders vote in favour of the ordinary resolution as set out in the notice of the SGM to be held on 22 September 2005 and thereby approve the Agreement, the TSCL Agreement and the Mengiwa Agreement.

Yours faithfully,
For and on behalf of
Independent Board Committee

Kwong Yiu Chung
Independent Non-executive Director

Wu Chun Sang
Independent Non-executive Director

LETTER FROM ACCESS CAPITAL

The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from Access Capital prepared for incorporation in this circular.



Suite 606, 6th Floor
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

31 August 2005

To: *The Independent Board Committee and the Independent Shareholders of
STELUX Holdings International Limited*

Dear Sirs,

PROPOSED CONNECTED AND DISCLOSEABLE TRANSACTIONS

I. INTRODUCTION

We refer to our appointment as Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders with regard to the terms of the Agreement, the TSCL Agreement, the Mengiwa Agreement, as well as the respective transactions contemplated under these agreements.

Under the Agreement entered into on 10 August 2005, between SHL, Yee Hing and Mr. Anant Kanjanapas (alias Wong Chong Po, the chairman and director of the Company) acting in the capacity of sole executor of the Estate, SHL has agreed to acquire the Yee Hing Sale Equity and the Estate Sale Equity (together the "Sale Equity") from Yee Hing and the Estate respectively (the "Acquisition"), for an aggregate consideration of HK\$55,267,775 (the "Sale Equity Consideration"). Upon completion of the Agreement (the "Completion"), the Company will become the controlling shareholder of the Thong Sia Companies, namely Thong Sia Company (Singapore) Pte Limited, Thong Sia Watch Company Limited and Thong Sia Sdn Bhd.

As stated in the "Letter from the Board", TSCL and Mengiwa have, over the past three years, granted non-secured non-interest bearing loans to Thong Sia Company (Singapore) Pte Limited (which as at 31 December 2004 totaled S\$9,905,518 or approximately HK\$47,150,266) to finance Thong Sia Company (Singapore) Pte Limited's general funding needs. However, as Thong Sia Company (Singapore) Pte Limited will become a wholly-

LETTER FROM ACCESS CAPITAL

owned subsidiary of the Company, upon Completion, Thong Sia Company (Singapore) Pte Limited will, pursuant to the Agreement, repay approximately HK\$5 million owed to TSCL upon Completion. The outstanding balance of the said loans, namely the Outstanding Loans, which in aggregate will amount to approximately HK\$42,150,266 (comprised of HK\$27 million owed to TSCL as well as S\$3,182,829 owed to Mengiwa, equivalent to approximately HK\$15,150,266) as at completion date of the Agreement, will be repaid by Thong Sia Company (Singapore) Pte Limited not later than 18 months after Completion, pursuant to the TSCL Agreement and the Mengiwa Agreement.

Under the TSCL Agreement entered into on 10 August 2005 between SHL, Thong Sia Company (Singapore) Pte Limited and TSCL, TSCL has agreed to continue to provide its HK\$ portion of the Outstanding Loans to Thong Sia Company (Singapore) Pte Limited for a period of not more than 18 months after Completion on a non-secured basis, and SHL has agreed to guarantee the HK\$ repayment obligations of the Outstanding Loans owed by Thong Sia Company (Singapore) Pte Limited to TSCL.

Under the Mengiwa Agreement entered into on 10 August 2005 between SHL, Thong Sia Company (Singapore) Pte Limited and Mengiwa, Mengiwa has agreed to continue to provide its S\$ portion of the Outstanding Loans to Thong Sia Company (Singapore) Pte Limited for a period of not more than 18 months after Completion on a non-secured basis, and SHL has agreed to guarantee the S\$ repayment obligations of the Outstanding Loans to Mengiwa. (The above guarantees provided by SHL to TSCL and to Mengiwa under the TSCL Agreement and the Mengiwa Agreement respectively, shall be referred to collectively as the "SHL Guarantee".)

Also under the Mengiwa Agreement, Mengiwa has agreed to continue to provide its existing corporate guarantee and mortgage assets to a third-party bank in Singapore, in support of Thong Sia Company (Singapore) Pte Limited's general banking facilities amounting to approximately HK\$19,040,000 in aggregate ("the Corporate Guarantee and the Mortgage Assets"), in support of Thong Sia Company (Singapore) Pte Limited's general funding needs. Accordingly, SHL has agreed to indemnify Mengiwa with respect to all of Mengiwa's liabilities under the Corporate Guarantee and the Mortgage Assets (the "SHL Indemnity").

With regard to the Acquisition, as stated in the "Letter from the Board", since (i) the Estate (through various holding companies including Yee Hing, which is interested in approximately 44% of the issued share capital of the Company) is the controlling shareholder of the Company; and (ii) Mr. Anant Kanjanapas (alias Wong Chong Po) is the chairman and director of the Company and sole executor of the Estate; the Estate, Yee Hing, Mr. Anant Kanjanapas (alias Wong Chong Po), are considered to be connected persons of the Group as defined by the Listing Rules. Furthermore, as the relevant percentage ratios under the applicable size tests conducted pursuant to Rule 14.07 of the Listing Rules vis-a-vis the Acquisition exceed 5% but are less than 25%; and as the Sale Equity Consideration payable by the Group, with regard to the applicable percentage ratios under Rule 14A.32 of the Listing Rules, exceeds 2.5% and is more than HK\$10 million; the transactions contemplated under the Agreement constitute connected and discloseable transactions for the Company and are subject to Independent Shareholders' approval by poll at the SGM.

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As stated in the “Letter from the Board”, since SHL is a wholly-owned subsidiary of the Company and since TSCL and Mengiwa are connected persons of the Group as defined under the Listing Rules, the provision of the Outstanding Loans together with the SHL Guarantee, and the provision of the Corporate Guarantee and the Mortgage Assets together with the SHL Indemnity, are considered to be financial assistance provided by connected persons of the Group under Rule 14A.10 of the Listing Rules, where security over the assets of the Group (i.e. the SHL Guarantee and the SHL Indemnity) is granted with respect to such financial assistance. Furthermore, pursuant to Rule 14A.26 of the Listing Rules, the amounts under the Outstanding Loans, which are covered by the SHL Guarantee and the amounts under the Corporate Guarantee and the Mortgage Assets which are covered by the SHL Indemnity, shall be aggregated. Accordingly, as the percentage ratios under the respective size tests under Rule 14.07 of the Listing Rules conducted vis-a-vis the said aggregated amount exceed 5% but are less than 25%; and pursuant to Rule 14A.63 of the Listing Rules, the provision of the Outstanding Loans together with the SHL Guarantee and the provision of the Corporate Guarantee and the Mortgage Assets together with the SHL Indemnity, will constitute connected and discloseable transactions for the Company, which are also subject to Independent Shareholders’ approval by poll at the SGM.

Accordingly, the Estate, Yee Hing and Mr. Anant Kanjanapas (alias Wong Chong Po) and their respective associates (as defined in the Listing Rules), including Mr. Chumphol Kanjanapas (alias Joseph C.C. Wong), will abstain from voting at the SGM to consider and, if thought fit, to approve (i) the Acquisition, (ii) the provision of the Outstanding Loans together with the SHL Guarantee, and (iii) the Corporate Guarantee and the Mortgage Assets together with the SHL Indemnity (together the “Transactions”).

Details of the Transactions are contained in the “Letter from the Board” of the circular to the Shareholders dated 31 August 2005 (the “Circular”), of which this letter forms part. The terms used in this letter shall have the same meaning as those defined in the Circular unless the context otherwise specifies.

II. THE INDEPENDENT BOARD COMMITTEE

The Board currently consists of five executive Directors, namely Mr. Anant Kanjanapas (alias Wong Chong Po), Mr. Chumphol Kanjanapas (alias Joseph C.C. Wong), Mr. Chu Kai Wah, Anthony, Mr. Lee Shu Chung, Stan and Mr. Wong Yuk Woon; a non-executive Director, Mr. Sakorn Kanjanapas; and two independent non-executive Directors, namely Mr. Kwong Yiu Chung and Mr. Wu Chun Sang.

The Independent Board Committee comprising the independent non-executive Directors, Mr. Kwong Yiu Chung and Mr. Wu Chun Sang, has been established to consider the terms of the Transactions.

We have been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Transactions as contemplated under the Agreement, the TSCL Agreement and the Mengiwa Agreement are fair and reasonable, are in the interests of the Company and the Shareholders as a whole, and to give our opinion in relation to the Transactions for the Independent Board Committee’s consideration when making their recommendation to the Independent Shareholders.

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III. BASES OF AND ASSUMPTIONS OF THE ADVICE

In formulating our advice, we have relied solely on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company and/or the Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular or otherwise provided or made or given by the Company and/or its senior management staff and/or the Directors and for which it is/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of the Circular. We have assumed that all the opinions and representations made or provided by the Directors and/or the senior management staff of the Company contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company and/or its senior management staff and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have reviewed all currently available information and documents which are available to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinions. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Company and/or its senior management staff and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out an independent verification of the information provided, nor have we conducted an independent investigation into the business and affairs of the Company or any of its subsidiaries.

IV. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation, we have taken into consideration the following principal factors and reasons:

1. Background to and reasons for the Acquisition

1.1 Principal activities of the Group and the business relationship between the Group and the Thong Sia Companies

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

Based on the audited accounts of the Group for the year ended 31 March 2005, the Group's timepiece retailing and its distribution of in-house branded and licensee branded timepieces accounted for approximately 49% and 16% respectively, or approximately HK\$681.8 million and HK\$234.4 million respectively, of the Group's annual turnover of approximately HK\$1,421.6 million.

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The Thong Sia Companies are principally engaged in the wholesaling of branded watches, clocks and timepieces of Seiko Watch Group and optical products; and they have been suppliers of watches, clocks and timepieces to the Group for over 10 years. For the last three financial years ended 31 March 2005, the Group purchased timepieces from the Thong Sia Companies amounting to approximately HK\$29.6 million (in 2003), approximately HK\$25.8 million (in 2004) and approximately HK\$41.0 million (in 2005), representing approximately 7.0%, 6.8% and 7.7% of the Group's total purchases of timepieces respectively.

As stated in the Group's annual report dated 31 March 2005, the Group would like to strengthen its retail, wholesale and distribution networks in Asia, as well as its export business to Europe, Japan, North America and Middle East.

1.2 Shareholders of the Thong Sia Companies and their intention to dispose of their respective holdings in each of the Thong Sia Companies

As stated in the "Letter from the Board", most of the original founders of the Thong Sia Companies have over the years passed their shareholdings in the Thong Sia Companies to their respective successors. As such, there were more than ten shareholders in the Thong Sia Companies excluding the Estate.

After Mr. Wong Chue Meng, the late chairman of the Company and one of the five founders of the Thong Sia Companies, passed away in 2003, the Estate, which holds over 30% in each of the Thong Sia Companies, indicated to the Group that it intended to dispose of its holdings in the Thong Sia Companies (i.e. the Estate Sale Equity). The Group in turn saw this as a potential opportunity to acquire control of the Thong Sia Companies.

As stated in the "Letter from the Board", in April and May of 2005, Yee Hing, which was not a shareholder of any of the Thong Sia Companies at the time, had negotiated and agreed with the abovementioned many shareholders of the Thong Sia Companies (excluding the Estate) to purchase their respective holdings in the Thong Sia Companies.

On 18 July 2005, the Company resolved to implement the Acquisition, that is, to acquire majority control in each of the Thong Sia Companies by acquiring the Estate Sale Equity from the Estate and the Yee Hing Sale Equity from Yee Hing. As a result, the Agreement was entered into on 10 August 2005.

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2. Background to and reasons for the provision of the Outstanding Loans, the SHL Guarantee, the Corporate Guarantee and the Mortgage Assets, and the SHL Indemnity

2.1 *The Outstanding Loans and the SHL Guarantee*

As stated in the “Letter from the Board”, for the past three years, TSCL and Mengiwa have granted non-secured non-interest bearing loans to Thong Sia Company (Singapore) Pte Limited in order to help finance Thong Sia Company (Singapore) Pte Limited’s general funding needs. Although Thong Sia Company (Singapore) Pte Limited will become a wholly-owned subsidiary of the Company as a result of the Acquisition, each of TSCL and Mengiwa has, as result of the negotiations with regard to the Agreement, agreed to continue to provide Thong Sia Company (Singapore) Pte Limited the respective HK\$ portion and S\$ portion of the Outstanding Loans for a period of no more than 18 months following Completion.

As Thong Sia Company (Singapore) Pte Limited will become a wholly-owned subsidiary of the Company at Completion, SHL has agreed to guarantee the repayment obligations of Thong Sia Company (Singapore) Pte Limited with respect to the HK\$ portion of the Outstanding Loans owed to TSCL as well as with respect to the S\$ portion of the Outstanding Loans owed to Mengiwa – together totaling approximately HK\$42,150,266.

2.2 *The Corporate Guarantee and the Mortgage Assets, and the SHL Indemnity*

In addition, as stated in the “Letter from the Board”, Mengiwa has since 1997, provided for nil consideration, the Corporate Guarantee and the Mortgage Assets to a third-party bank in Singapore, in support of Thong Sia Company (Singapore) Pte Limited’s general banking facilities. The said banking facilities are comprised of S\$2.0 million in overdraft facilities (equivalent to approximately HK\$9,520,000) and S\$2.0 million in revolving loan facilities (equivalent to approximately HK\$9,520,000).

As a result of the negotiations pertaining to the Acquisition, Mengiwa has, pursuant to the Mengiwa Agreement, agreed to continue to provide the Corporate Guarantee and the Mortgage Assets for nil consideration, for a period of not more than 18 months following Completion. In return, and as the Company will become the new controlling shareholder of Thong Sia Company (Singapore) Pte Limited following Completion, SHL has agreed to indemnify Mengiwa against its liabilities under the Corporate Guarantee and the Mortgage Assets – together totaling approximately HK\$19,040,000.

Shareholders should note that as at the Latest Practicable Date, Thong Sia Company (Singapore) Pte Limited has not used any portion of the above overdraft and/or revolving loan facilities.

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3. Benefits of the Transactions

3.1 *The Acquisition*

As described in the annual report of the Group for the year ended 31 March 2005, the Group would like to grow its businesses via organic expansion and/or via acquisitions of businesses, which complement and synergize with its existing operations.

As described in the “Letter from the Board”, the Group has in place an established working relationship with the Thong Sia Companies dating back over 10 years; and Mr. Chumphol Kanjanapas (alias Joseph C.C. Wong), the vice chairman and chief executive officer of the Company, has been the chairman of each of the Thong Sia Companies since the beginning of 2003 and is very familiar with the Thong Sia Companies’ operations.

Hence, the intention and willingness of the Estate to dispose of the Estate Sale Equity as mentioned above and Yee Hing’s willingness to dispose of the Yee Hing Sale Equity together represents an opportunity for the Company to gain control of the Thong Sia Companies, which are complementary to the Company’s existing operations.

In addition, upon completion of the Acquisition, the Directors expect to expand the Group’s high-end watch distribution business; and the integration of the Thong Sia Companies’ watch wholesale market expertise in Hong Kong, Singapore and Malaysia would support this expansion.

In sum, the Directors consider that the Acquisition will help diversify and enhance the Group’s revenue base, as well as help improve the overall operating efficiency of the Group’s watch retailing and wholesaling businesses, all of which is in line with the Group’s long-term growth strategy. Taking into account the background information and the reasons set out above, we are of the view that it is reasonable for the Group to implement the Acquisition.

3.2 *The Outstanding Loans and the SHL Guarantee*

As explained in the “Letter from the Board”, TSCL and Mengiwa have, over the past three years, granted non-secured non-interest bearing loans to Thong Sia Company (Singapore) Pte Limited, which as at 31 December 2004, totaled S\$9,905,518 or approximately HK\$47,150,266. These loans have all along been utilised by Thong Sia Company (Singapore) Pte Limited, free of interest charges, to finance its general funding needs. However, as a result of the Acquisition, Thong Sia Company (Singapore) Pte Limited will undergo a change of control, and in such instances, it is not unusual to expect lenders to consider demanding some form of repayment of their outstanding loans.

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In the case of Thong Sia Company (Singapore) Pte Limited, Thong Sia Company (Singapore) Pte Limited will, as a term of the Agreement, first repay HK\$5 million to TSCL upon Completion; and the balance, namely the Outstanding Loans comprised of HK\$27.0 million owed to TSCL and S\$3,182,829 (equivalent to approximately HK\$15,150,266) owed to Mengiwa, will be repaid within not more than 18 months following Completion, but at an interest rate of 2% below prime or 2% below the best lending rate as quoted by the relevant local bank in Hong Kong and Singapore for the respective HK\$ and S\$ portions of the Outstanding Loans. This arrangement prevents the Company from having to repay the Outstanding Loans immediately upon Completion and reduces the amount of cash deployed by the Group for the Acquisition; though under the SHL Guarantee, if Thong Sia Company (Singapore) Pte Limited defaults on its repayment of the Outstanding Loans within 18 months after Completion, TSCL and Mengiwa will have recourse to repayment from Thong Sia Company (Singapore) Pte Limited's new controlling shareholder, SHL, for the Outstanding Loans under the SHL Guarantee.

We have discussed the repayment of the Outstanding Loans with the Directors and the senior management of Thong Sia Company (Singapore) Pte Limited, and they have advised us that they intend to preserve the existing cash resources of Thong Sia Company (Singapore) Pte Limited for its general funding needs, and that they believe that Thong Sia Company (Singapore) Pte Limited together with the backing of the Group, will likely generate sufficient cash over the 18 months following Completion to fund Thong Sia Company (Singapore) Pte Limited's operations and at the same time repay the Outstanding Loans.

Given that (i) Thong Sia Company (Singapore) Pte Limited will not have to repay the Outstanding Loans immediately upon Completion despite the change in its controlling shareholder; (ii) the Outstanding Loans (previously granted free of interest) will bear a relatively low interest rate for the 18 months following Completion; (iii) the 18 month repayment period will allow the Group to reduce the amount of cash deployed for the Acquisition; (iv) the Directors intend to preserve the existing cash resources of the Thong Sia Company (Singapore) Pte Limited; and (v) Thong Sia Company (Singapore) Pte Limited together with the backing of the Group, is expected to generate enough cash over the 18 months following Completion to fund Thong Sia Company (Singapore) Pte Limited's operations and to repay the Outstanding Loans, we are of the view that it is justifiable and reasonable for Thong Sia Company (Singapore) Pte Limited to repay the Outstanding Loans over 18 months at a low interest rate, as well as for SHL to provide the SHL Guarantee in relation thereto.

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3.3 *The Corporate Guarantee and the Mortgage Assets, and the SHL Indemnity*

As explained in the “Letter from the Board”, in addition to providing Thong Sia Company (Singapore) Pte Limited the S\$ portion of the Outstanding Loans, Mengiwa has since 1997 also been providing for nil consideration, the Corporate Guarantee and the Mortgage Assets to a third-party bank in Singapore, in order to support Thong Sia Company (Singapore) Pte Limited’s overdraft and revolving loan facilities, which Thong Sia Company (Singapore) Pte Limited needs for general funding purposes.

Again, given that Thong Sia Company (Singapore) Pte Limited will undergo a change of control as a result of the Acquisition, it is normal to expect any corporate guarantees and mortgage assets associated with the previous controlling shareholder to be released immediately. However, as a result of the negotiations pertaining to the Acquisition, Mengiwa has agreed to continue to provide the Corporate Guarantee and the Mortgage Assets in support of the said existing banking facilities for a further 18 months following Completion. Although Thong Sia Company (Singapore) Pte Limited has not used any of the overdraft facilities and/or the revolving loan facilities as at the Latest Practicable Date, the Directors and the senior management of Thong Sia Company (Singapore) Pte Limited believe that the continued provision of such banking facilities backed by Mengiwa will enable Thong Sia Company (Singapore) Pte Limited to maintain an additional funding source for its business in the near term, and thus enjoy the necessary flexibility required for the smooth integration of the Thong Sia Companies into the Group.

We have noted that under the SHL Indemnity, SHL has to indemnify Mengiwa against all actions, claims, demands, liabilities, losses, damages, costs, charges and expenses of whatever nature which may result or which Mengiwa may sustain, suffer or incur in connection with or arising in any way whatsoever out of the Corporate Guarantee and the Mortgage Assets provided in support of the aforesaid banking facilities of Thong Sia Company (Singapore) Pte Limited, and to pay to Mengiwa all moneys and liabilities which Mengiwa will pay or become liable to pay or sustain, suffer or incur under or by reason of or in connection with the Corporate Guarantee and the Mortgage Assets provided by Mengiwa.

Taking into account (i) the aforesaid added flexibility to obtain additional funding for the operation of Thong Sia Company (Singapore) Pte Limited, (ii) the fact that the Corporate Guarantee and the Mortgage Assets will continue to be provided for nil consideration, (iii), and the fact that said banking facilities give Thong Sia Company (Singapore) Pte Limited an added ability to preserve its cash resources for operations in the near term, we are of the view that it is justifiable and reasonable for SHL to provide the SHL Indemnity.

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4. Terms of the Agreement, the TSCL Agreement and the Mengiwa Agreement

4.1 *The Acquisition*

On 10 August 2005, the Company announced that it had through SHL, its indirect wholly-owned subsidiary, entered into the Agreement with Yee Hing and Mr. Anant Kanjanapas (alias Wong Chong Po), whereby SHL has agreed to acquire the Sale Equity and thereby gain controlling interest in the Thong Sia Companies for an aggregate cash consideration of approximately HK\$55,267,775 comprising the Sale Equity Consideration.

Pursuant to the Agreement, SHL has agreed to acquire the Sale Equity, which includes:

- (i) the Yee Hing Sale Equity from Yee Hing, for a cash consideration of HK\$34,000,010; whereby the Yee Hing Sale Equity is comprised of 60.0%, 58.0% and 54.0% equity interest respectively in Thong Sia Company (Singapore) Pte Limited, Thong Sia Watch Company Limited and Thong Sia Sdn Bhd; and
- (ii) the Estate Sale Equity from the Estate, for a cash consideration of HK\$21,267,765; whereby the Estate Sale Equity is comprised of 40.0%, 38.0% and 40.4% equity interest respectively in Thong Sia Company (Singapore) Pte Limited, Thong Sia Watch Company Limited and Thong Sia Sdn Bhd.

SHL has already paid to Yee Hing a refundable deposit of HK\$10.0 million, which constitutes a payment in part of the Sale Equity Consideration. The remaining balance of HK\$45,267,775 (comprised of HK\$24,000,010 payable to Yee Hing and HK\$21,267,765 payable to the Estate) will be paid for by SHL in cash and funded by Group's internal resources.

The Sale Equity Consideration represents approximately 2.3 times the combined net profit after tax before extraordinary items of the Thong Sia Companies, attributable to the Sale Equity, as at 31 December 2004, which is equivalent to approximately HK\$23,829,538.

Independent Shareholders should note that as shown below the acquisition price earnings ratio of 2.3 times is lower than those of other listed watch and jewellery wholesale and retail distribution groups in Hong Kong with established brand names (with price earnings multiples ranging from 5.7 times to 38.2 times).

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The following as illustrated in the table is a summary of comparable companies that retail and distribute watches, sorted in descending order by market capitalisation:

Company	Stock code	Market capitalisation as at 29 Aug 2005 <i>HK\$'million</i>	Turnover for the latest financial year ⁽¹⁾ <i>HK\$'million</i>	Net profit for the latest financial year ⁽¹⁾ <i>HK\$'million</i>	Price to earnings ratio as at 29 Aug 2005 ⁽²⁾ <i>Times</i>
Dickson Concepts Intl. Ltd.	113	4,065.1	2,803.0	203.1	20.0
Chow Sang Sang Holdings Ltd.	116	2,844.1	7,017.1	200.2	14.2
Stelux Holdings International Ltd.	84	875.2	1,421.6	171.0	5.1
Oriental Watch Holdings Ltd.	398	421.1	2,041.8	74.0	5.7
Asia Commercial Holdings Ltd.	104	166.9	255.7	4.4	38.2
				<i>Average:</i>	16.6
Sale Equity Consideration		55.3⁽³⁾		23.8⁽⁴⁾	2.3

Note:

- (1) The latest financial year end dates for the companies in the above table are as follows: Dickson Concepts Intl. Ltd. – 31 March 2005; Chow Sang Sang Holdings Ltd. – 31 December 2004; Oriental Watch Holdings Ltd. – 31 March 2005; Asia Commercial Holdings Ltd. – 31 March 2005; the Thong Sia Companies – 31 December 2004; and the Company – 31 March 2005.
- (2) Price to earnings ratios are from Bloomberg, and they are calculated on a rolling 12 month basis i.e. based on the most recent respective announced audited annual results.
- (3) Sale Equity Consideration amount only.
- (4) Profit attributable to the Sale Equity only.

Source: Relevant annual reports of the respective listed companies and Bloomberg.

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Based on the above comparison of listed market comparables, we can conclude that the Sale Equity Consideration valuation of 2.3 times the Thong Sia Companies' 2004 combined earnings attributable to the Sale Equity is considerably lower than the prevailing multiples applicable to its peers, including the multiple applicable to the Company. However, given the fact that the Thong Sia Companies are a private group, whose principal business is the sole-distributorship of Seiko Watch Group clocks, watches and timepieces, within Singapore, Hong Kong, and Malaysia, we are of the view that said 2.3 times multiple is reasonable.

In addition, as stated in the "Letter from the Board", the Sale Equity Consideration also represents approximately 64% premium over the combined net asset value ("NAV") of the Thong Sia Companies attributable to the Sale Equity, as at 31 December 2004, which is equivalent to HK\$33,760,052. As stated in the "Letter from the Board" the Directors consider it fair and reasonable that the Sale Equity Consideration would reflect a premium over the NAV of the Thong Sia Companies attributable to the Sale Equity, as the value of the Thong Sia Companies businesses are not NAV based, but rather earnings based businesses. In other words, the profitability of the Thong Sia Companies is not directly related to their combined NAV.

4.2 *The Outstanding Loans*

TSCL and Mengiwa have, over the past three years, granted non-secured non-interest bearing loans to Thong Sia Company (Singapore) Pte Limited to help finance Thong Sia Company (Singapore) Pte Limited's general funding needs. Pursuant to the Agreement, SHL, Yee Hing and the Estate have agreed that as part of the Acquisition, Thong Sia Company (Singapore) Pte Limited, which will become a wholly-owned subsidiary of the Company upon Completion, will repay the outstanding non-secured non-interest bearing loans currently owed to TSCL and Mengiwa totaling S\$9,905,518 or approximately HK\$47,150,266 as at 31 December 2004, comprised of HK\$32.0 million owed to TSCL and S\$3,182,829 (equivalent to approximately HK\$15,150,266) owed to Mengiwa.

As a term of the Agreement, Thong Sia Company (Singapore) Pte Limited will first repay HK\$5 million to TSCL upon Completion; and pursuant to the TSCL Agreement and the Mengiwa Agreement, the Outstanding Loans, namely the remaining outstanding unsecured amounts of HK\$27.0 million owed to TSCL and S\$3,182,829 (equivalent to approximately HK\$15,150,266) owed to Mengiwa, will be repaid not later than 18 months after Completion and will be interest bearing at an annual rate of 2% below the prevailing prime or best-lending rate as quoted by a local bank in Hong Kong and Singapore respectively, as applicable to the relevant HK\$ and S\$ portions of the Outstanding Loans.

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Following Completion, save for the Outstanding Loans, none of the Thong Sia Companies will have outstanding loans due to or from any of its founders, Yee Hing, the Estate, or any other connected persons (as defined under the Listing Rules) of the Group and their respective associates.

The Directors are of the view that the repayment of the Outstanding Loans, agreed to between relevant parties, to be repaid over a period of 18 months following Completion will provide the Group and the Thong Sia Companies a stable transitional period following Completion; and that the requisite interest charged at 2% per annum below the prevailing prime or best-lending rate as quoted by the relevant bank is a favourable interest rate applicable to unsecured loans such as those under the Outstanding Loans. We have discussed with some banks and noted that under the current increasing interest rate environment, the interest rate applicable to an unsecured Hong Kong dollar loan of approximately HK\$42.2 million and for a tenure of 18 months will likely be higher than the prevailing prime rate of approximately 6.75% per annum. In the event the Company repays the Outstanding Loans in full at Completion, the Company may still need to utilise its banking facilities to finance the repayment at an average cost that is at or in excess of the prevailing prime rate, which would be higher than the requisite interest charged at 2% below the prevailing prime rate as quoted by the relevant bank. Accordingly, we are of the view that the interest charge to the Outstanding Loans for the additional 18 months repayment period at a rate 2% per annum below the prevailing prime rate or best lending rate as quoted by the relevant bank is a favourable interest rate applicable to unsecured loans and is fair and reasonable.

4.3 *Yee Hing Undertaking*

Shareholders should also note that, according to the Directors, the Thong Sia Companies have never had any formal distributor agreements with the Seiko Watch Group, even though each of the Thong Sia Companies has been the sole-distributor in Singapore, Hong Kong, and Malaysia respectively for the Seiko Watch Group over the past 20 years. The Thong Sia Companies have maintained a longstanding sole-distributor relationship with Seiko Watch Group in various countries over the years (namely Singapore, Hong Kong and Malaysia), and the Directors have advised us that this working relationship will remain unchanged after completion of the Agreement. To this effect, Yee Hing and the Estate have also made representations to SHL in the Agreement stating that to the best of their knowledge, information and belief, each of the Thong Sia Companies is currently the sole-distributor of the Seiko Watch Group watches, clocks and timepieces for their respective countries.

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In any event, Yee Hing has given an undertaken to SHL, such that for a period of 3 years following Completion, the Thong Sia Companies' sole-distributorship of the Seiko Watch Group branded clocks, watches and timepieces will remain in place (unless a willful default arises on the part of the Thong Sia Companies) (the "Yee Hing Undertaking"). In the event of a breach of the Yee Hing Undertaking, Yee Hing will pay to SHL an amount equal to the difference between the Sale Equity Consideration and the audited consolidated net tangible asset value of the Thong Sia Companies (with respect to the audited accounts of the Thong Sia Companies, to be prepared on a combined basis, at completion of the Acquisition).

The Directors are of the view that the Yee Hing Undertaking will give added comfort to the Group in relation to the Acquisition, as it offers the Group a mutually agreed level of compensation (and thus a degree of downside protection for the Group), should the Thong Sia Companies lose their sole-distributorship status. We are also of the view that it is reasonable for the Group, as part of the negotiation process vis-à-vis the Acquisition, to ask Yee Hing and the Estate to give the Yee Hing Undertaking and above assurances, in order to provide the Group added comfort when acquiring the Thong Sia Companies.

5. Possible financial impact to the ongoing turnover and profitability of the Group

For the year ended 31 March 2005, the Group recorded a turnover of approximately HK\$1,421.6 million, of which the turnover generated from the retailing and trading of watches amounted to approximately HK\$916.2 million. The turnover for the year ended 31 March 2005 represents an increase of 16.7% over the turnover for the previous financial year ended 31 March 2004 of approximately HK\$1,218.0 million, out of which HK\$785.7 million was attributable to turnover generated from the retailing and trading of watches.

During the same period, the Group recorded a net profit after taxation of approximately HK\$171.0 million, representing an increase of approximately 107% from the net profit achieved in the previous financial year ended 31 March 2004 of approximately HK\$82.7 million.

For the year ended 31 December 2004, the audited turnover of Thong Sia Company (Singapore) Pte Limited, Thong Sia Watch Company Limited and Thong Sia Sdn Bhd amounted to approximately S\$17.3 million (equivalent to approximately HK\$82.3 million), approximately HK\$109.8 million, and approximately MYR34.3 million (equivalent to approximately HK\$68.6 million respectively; and the combined turnover of the Thong Sia Companies therefore amounted to approximately HK\$260.7 million.

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For the year ended 31 December 2004, the net profit after taxation but before extraordinary items attributable to the Sale Equity amounted to approximately S\$3.2 million (equivalent to approximately HK\$15.2 million) for Thong Sia Company (Singapore) Pte Limited, approximately HK\$2.3 million for Thong Sia Watch Company Limited, and approximately MYR 3.2 million (equivalent to approximately HK\$6.4 million) for Thong Sia Sdn Bhd. This translates to a combined net profit after taxation but before extraordinary items of approximately HK\$23.9 million for 31 December 2004 attributable to the Sale Equity. This compares to a combined net profit after taxation but before extraordinary items attributable to the Sale Equity of approximately HK\$10.3 million for the financial year ended 31 December 2003.

Since the consideration payable under the Agreement will be funded out of the Group's internal cash resources, the Acquisition will reduce the cash holdings of the Group. Upon completion of the Agreement, Thong Sia Company (Singapore) Pte Limited, Thong Sia Watch Company Limited and Thong Sia Sdn Bhd will become respectively 100%, 96.0% and 94.4% owned subsidiaries of the Group. Accordingly, the profit and loss generated by the Thong Sia Companies from the completion date of the Agreement will be consolidated into the Group; and the net assets of the Group will then be increased by the combined retained earnings of the Thong Sia Companies attributable to the Sale Equity from the completion date of the Agreement.

The Directors are of the view that based on the historical financial performance of the Thong Sia Companies as mentioned above, the newly acquired Thong Sia Companies should have a positive contribution to the Group's ongoing turnover and profitability going forward; and as the Acquisition is a cash deal there will be no material effect to the Group's balance sheet for the current financial year. Based on the Thong Sia Companies recent performance and based on the Directors' knowledge of the Thong Sia Companies as a result of their established working experience, we concur with this view.

6. Factors considered

In considering the terms of the Transactions, we have taken into account the following factors:

- the fact that the Agreement, the TSCL Agreement and the Mengiwa Agreement together enable the Group to acquire the complementary businesses of the Thong Sia Companies, which include the sole-distributor rights to distribute branded watches, clocks and timepieces of the Seiko Watch Group in Singapore, Hong Kong and Malaysia, which is in line with the Group's long-term growth strategy;

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- the fact that the Thong Sia Companies are growing businesses, which also carry with them synergistic value, namely the Seiko Watch Group distributorship, and certain wholesaling and local market infrastructure and expertise;
- the fact that the Thong Sia Companies have been suppliers to the Group for over 10 years, and as a result the Group is familiar with their capabilities and synergistic value;
- the fact that although the Thong Sia Companies have no formal relationship with the Seiko Watch Group, the Thong Sia Companies have been sole-distributors of the Seiko Watch Group's watches, clocks and timepieces for over 20 years; and in any event, Yee Hing has entered into the Yee Hing Undertaking such that SHL will enjoy certain downside protection and added comfort with regard to the Acquisition;
- the fact that the terms of the Agreement (including the Sale Equity Consideration and the repayment of the Outstanding Loans), as well as the terms of the TSCL Agreement and the Mengiwa Agreement (including the SHL Guarantee and the SHL Indemnity) were arrived at following arm's length negotiations between relevant parties;
- the fact that the repayment of the Outstanding Loans is a term of the Agreement and that their full repayment due 18 months from Completion at an interest rate below prime or below the best lending rate, provides the Group and the Thong Sia Companies a stable transitional period following Completion;
- the fact that, as a result of negotiations pertaining to the Acquisition, and as Thong Sia Company (Singapore) Pte Limited will become a wholly-owned subsidiary of the Group, SHL has (under the SHL Guarantee) agreed to guarantee Thong Sia Company (Singapore) Pte Limited's repayment obligations under the Outstanding Loans;
- the fact that, as a result of negotiations pertaining to the Acquisition, Mengiwa has agreed, under the Mengiwa Agreement, to continue to provide the Corporate Guarantee and the Mortgage Assets in support the banking facilities which Thong Sia Company (Singapore) Pte Limited needs, for a period of 18 months following Completion, on condition that SHL indemnify all liabilities associated with the Corporate Guarantee and the Mortgage Assets during that 18 month period; and
- the fact that the financial impact of the Acquisition will utilise some of the existing cash resources of the Group, but also that it should have a positive contribution to the Group's turnover and profitability after Completion.

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V. RECOMMENDATION

After having considered the above principal factors including, namely, (i) background to and reasons for the Transactions; (ii) the terms of and possible financial effects of the Transactions; and (iii) factors considered, we are of the view that terms of the Transactions are fair and reasonable and that the Transactions are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend to the Shareholders to vote in favor of the ordinary resolution in relation to the Transactions, which will be proposed at the SGM.

Yours faithfully,
For and on behalf of
ACCESS CAPITAL LIMITED
Jeanny Leung
Managing Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular with regard to the Company and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts with regard to the Company, the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors and chief executives

As at the Latest Practicable Date, the interests and short positions of the Directors and the Company's chief executives in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered in the register required to be kept under section 352 of the SFO were as follows:

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

(i) *The Company – Ordinary Shares*

Name of Director	Number of Shares			Total	Approximate percentage of issued share capital as at the Latest Practicable Date
	Personal Interests	Family Interests	Corporate Interests		
Mr. Wong Chong Po	3,600,000	–	–	3,600,000	0.38
Mr. Joseph C. C. Wong	13,181,211	10,000	–	13,191,211	1.39
Mr. Chu Kai Wah, Anthony	2,000,000	–	–	2,000,000	0.21
Mr. Sakorn Kanjanapas	391,056	–	–	391,056	0.04
Mr. Lee Shu Chung, Stan	2,000,000	–	–	2,000,000	0.21
Mr. Wong Yuk Woon	2,000,000	–	–	2,000,000	0.21

(ii) *Subsidiary Companies*

	Number of Shares			Total	Approximate percentage of preference shares as at the Latest Practicable Date
	Personal Interests	Family Interests	Corporate Interests		
(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, as at the Latest Practicable Date, none of the Directors or the Company's chief executives, had, under Divisions 7 and 8 of Part XV of the SFO, nor were they taken to or deemed to have under such provisions of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) or any interests which are required to be entered into the register kept by the Company pursuant to section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

(b) Interests of shareholders discloseable pursuant to the SFO

Save as disclosed below, the Directors are not aware of any other person (other than a Director or chief executive of the Company or his/her respective associate(s)) who, as at the Latest Practicable Date, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Number of Shares	Percentage of shareholding	<i>Note</i>
Yee Hing Company Limited	415,031,771	43.63	<i>(a)</i>
Active Lights Company Limited	135,653,636	14.26	<i>(b)</i>
Thong Sia Company Limited	91,032,218	9.57	<i>(c)</i>

Notes:

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

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

(c) Substantial shareholding in other members of the Group

The Directors are not aware of any other person (other than a Director or chief executive of the Company or his/her respective associate(s)) who, as at the Latest Practicable Date, was directly or indirectly interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

(d) Other Directors' Interests

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have since 31 March 2005 (being the date to which the latest published audited consolidated accounts of the Group were made up) been acquired or disposed of by or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by or leased to the Company or any of its subsidiaries.

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in a business apart from the Company's business which competes or is likely to compete, either directly or indirectly, the Company's business, or which would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder.

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors were materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries, which was subsisting and was significant in relation to the business of the Group.

3. MATERIAL CHANGES

Other than the matters set out in this circular, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2005, the date to which the latest published audited financial statements of the Company were made up.

4. EXPERT

- (a) The following are the qualifications of Access Capital who has given its opinions or advices which are contained in this circular:

Name	Qualifications
Access Capital Limited	Licensed corporation to carry out Types 1, 4, 6 and 9 regulated activities under the SFO

- (b) As at the Latest Practicable Date, Access Capital does not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) As at the Latest Practicable Date, Access Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they are included.

- (d) As at the Latest Practicable Date, Access Capital does not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, nor which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2005, the date to which the latest published audited financial statements of the Company were made up.
- (e) The letter of Access Capital as of the date of this circular set out in the section headed "Letter from Access Capital" is given for incorporation in this circular.

5. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries other than those disclosed below:

As disclosed in note 6 to the 2004 Annual Report of the Company, the Group was awarded damages in March 2004 in an arbitration with the contractor of Stelux House.

Leave has been given to the contractor to appeal the arbitrator's award relating to interest on the sums awarded and the costs of the arbitration. The substantive appeal is due to be heard in the High Court in September 2005. This appeal will not affect the compensation received from the contractor and disclosed in note 6 to the 2004 Annual Report of the Company.

6. SERVICE CONTRACTS

There is no existing or proposed service contracts between any of the Directors and the Company or any of its subsidiaries respectively, other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

7. GENERAL

- (a) The secretary of the Company is Caroline Chong Sue Peng, BA (Law) (Hons), admitted as a Barrister in England and Wales, and Hong Kong.
- (b) Mr Wong Yuk Woon, CPA, ACIB, has been appointed as the qualified accountant for the purpose of Rule 3.24 of the Listing Rules.

- (c) The registered office of the Company is at Canon's Court, 22 Victoria Street, Hamilton, HM12, Bermuda. The principal place of business of the Group in Hong Kong is at 27th Floor, Stelux House, 698 Prince Edward Road East, San Po Kong, Kowloon, Hong Kong. The share registrars of the Company is Butterfield Fund Services (Bermuda) Limited at Rosebank Centre, 11 Bermudiana Road, Pembroke, Bermuda and the branch share registrar and transfer office is Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection on any weekday (Saturdays, Sundays and public holidays excepted) during normal business hours from 9:30 a.m. to 5:30 p.m. up to and including 22 September 2005 at the principal office of the Company at 27th Floor, Stelux House, 698 Prince Edward Road East, San Po Kong, Kowloon, Hong Kong:

- (a) the Agreement;
- (b) the Mengiwa Agreement;
- (c) the TSCL Agreement;
- (d) the letter from the Independent Board Committee, the text of which is set out in the section headed "Letter from the Independent Board Committee" of this circular;
- (e) the letter from Access Capital, the text of which is set out in the section headed "Letter from Access Capital" of this circular; and
- (f) the written consents referred to in paragraph 4 in this Appendix.

STELUX Holdings International Limited

寶光實業(國際)有限公司*

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

NOTICE is HEREBY GIVEN that the Special General Meeting of the Shareholders will be held at 5th Floor, Stelux House, 698 Prince Edward Road East, San Po Kong, Kowloon, Hong Kong at 11:00 a.m. on 22 September 2005 for the purpose of considering, if thought fit, passing with or without amendments, the following resolution as an ordinary resolution of the Company:-

ORDINARY RESOLUTION

“THAT

- (a) the Agreement (as defined in the circular to shareholders of the Company dated 31 August 2005 (the “Circular”) and a copy of which has been produced to this meeting marked “A” and signed by the Chairman of this meeting for the purpose of identification) and the transactions respectively contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the Mengiwa Agreement (as defined in the Circular and a copy of which has been produced to this meeting marked “B” and signed by the Chairman of this meeting for the purpose of identification), and subject to completion of the Agreement, the continuing connected transactions of the Company contemplated thereunder be and are hereby approved, confirmed and ratified;
- (c) the TSCL Agreement (as defined in the Circular and a copy of which has been produced to this meeting marked “C” and signed by the Chairman of this meeting for the purpose of identification), and subject to completion of the Agreement, the continuing connected transactions of the Company contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (d) any one of the directors of the Company (“Director(s)”) be and is hereby authorised to do all such further acts and things and execute such further documents and take all steps which in his opinion may be necessary, desirable

* For identification purpose only

NOTICE OF SGM

or expedient to implement and/or give effect to the Agreement, Mengiwa Agreement, TSCL Agreement and the continuing connected transactions of the Company which arise following completion of the Agreement, and the transactions respectively contemplated thereunder with any changes as such Director may consider necessary, desirable or expedient.”

By Order of the Board
Caroline Chong
Company Secretary

Hong Kong, 31 August 2005

Notes:

- (1) Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. All proxies must be deposited at the Company's Hong Kong registrar Computershare Hong Kong Investor Services Limited, 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time appointed for the holding of the meeting, or adjourned meeting or the taking of the poll, as the case may be.
- (2) Completion and delivery of the form of proxy will not preclude you from attending and voting at the meeting if you so wish.
- (3) Where there are joint holders of any shares, any one of such joint holders may vote at the meeting, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting personally or by proxy, that one of such holders so present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.

The Directors of the Company as at the date of this Circular are as follows:–

Executive Directors:–

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

Non-Executive Directors:–

Sakorn Kanjanapas, Kwong Yiu Chung (*independent*) and Wu Chun Sang (*independent*)