STELUX Holdings International Limited

寶光實業(國際)有限公司*

incorporated in Bermuda with limited liability

Website: http://www.stelux.com

Stock Code: 84

ANNOUNCEMENT OF RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

The directors of Stelux Holdings International Limited (the "Company") are pleased to report the interim results and financial information of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 September 2014 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

		Unaudited Six months ended 30 September	
		2014	2013
	Note	***HK$'000***	*HK$'000*
Revenues	*4,5*	**2,000,349**	1,894,546
Cost of sales		**(768,750)**	(727,966)
Gross profit		**1,231,599**	1,166,580
Other gains/(losses), net	*6*	**2,300**	(4,235)
Other income	*7*	**14,473**	13,254
Selling expenses		**(865,430)**	(819,418)
General and administrative expenses		**(212,283)**	(192,767)
Other operating expenses		**(14,541)**	(12,021)
Operating profit		**156,118**	151,393
Finance costs		**(16,630)**	(17,067)
Share of (loss)/profit of an associate		**(913)**	244
Profit before income tax	*8*	**138,575**	134,570
Income tax expense	*9*	**(33,157)**	(29,613)
Profit for the period		**105,418**	104,957

* *For identification purpose only*

CONDENSED CONSOLIDATED INCOME STATEMENT (Continued)

	Note	Unaudited Six months ended 30 September **2014** *HK$'000*	2013 *HK$'000*
Attributable to:			
Equity holders of the Company		**105,196**	104,706
Non-controlling interests		**222**	251
		105,418	104,957
Dividends	*10*	**20,929**	37,673
		HK cents	*HK cents*
Earnings per share for profit attributable to the equity holders of the Company	*11*		
– Basic		**10.05**	10.01
– Diluted		**9.41**	9.40

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

	Unaudited Six months ended 30 September 2014 *HK$'000*	2013 *HK$'000*
Profit for the period	**105,418**	104,957
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences	**19,182**	(22,329)
Other comprehensive income for the period, net of tax	**19,182**	(22,329)
Total comprehensive income for the period	**124,600**	82,628
Attributable to:		
Equity holders of the Company	**124,454**	82,873
Non-controlling interests	**146**	(245)
Total comprehensive income for the period	**124,600**	82,628

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 SEPTEMBER 2014

	Note	Unaudited 30 September 2014 HK$'000	31 March 2014 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**476,323**	493,473
Prepayment of lease premium		**43,906**	47,256
Intangible assets		**61,887**	63,197
Investment in an associate		**69,269**	54,989
Deferred tax assets		**56,581**	63,775
Available-for-sale financial assets		**15,331**	15,331
Debtors, deposits and prepayments	*12*	**183,770**	152,521
		907,067	890,542
Current assets			
Stocks		**1,429,319**	1,194,031
Debtors, deposits and prepayments	*12*	**384,347**	423,494
Bank balances and cash		**419,956**	457,683
		2,233,622	2,075,208
Total assets		**3,140,689**	2,965,750
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		**104,647**	104,647
Reserves		**1,439,426**	1,353,691
Shareholders' funds		**1,544,073**	1,458,338
Non-controlling interests		**7,515**	7,483
Total equity		**1,551,588**	1,465,821
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		**2,125**	2,126
Borrowings		**117,730**	70,464
Convertible bonds		**337,157**	331,456
		457,012	404,046
Current liabilities			
Creditors and accruals	*13*	**683,144**	595,839
Income tax payable		**45,803**	35,921
Borrowings		**403,142**	464,123
		1,132,089	1,095,883
Total liabilities		**1,589,101**	1,499,929
Total equity and liabilities		**3,140,689**	2,965,750
Net current assets		**1,101,533**	979,325
Total assets less current liabilities		**2,008,600**	1,869,867

NOTES:–

1. BASIS OF PREPARATION

These unaudited condensed interim consolidated financial information have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and the applicable requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The condensed interim consolidated financial information should be read in conjunction with the 2014 annual financial statements, which have been prepared in accordance with HKFRS.

Except as mentioned below, the accounting policies and methods of computation used in the preparation of these condensed interim consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 March 2014.

The following amendments to standards and interpretations are mandatory for accounting periods beginning on or after 1 April 2014. The adoption of these amendments to standards and interpretations does not have any significant impact to the results and financial position of the Group:

HKFRS 10, HKFRS 12 and HKAS 27 (2011) (Amendment)	Investment entities
HKAS 32 (Amendment)	Offsetting financial assets and financial liabilities
HKAS 36 (Amendment)	Impairment of assets
HKAS 39 (Amendment)	Novation of derivatives
HK(IFRIC) – Int 21	Levies

The Group has not early adopted any new standards, amendments to standards and interpretations of HKFRS which have been issued but not yet effective for the financial year ending 31 March 2015.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

2. ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed interim consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2014.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

The condensed interim consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 March 2014.

There have been no changes in the risk management policies since year end.

3.2 Fair value estimation

The Group's financial instruments carried at fair value are analysed by the valuation method. The different levels have been defined as follows:

– Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

– Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

– Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's available-for-sale financial assets and liability components of convertible bonds are measured at fair value and are classified as level 3.

There were no movements in the available-for-sale financial assets during the period.

There were no transfer of financial instruments into or out of level 3 during the period.

The Group's level 3 instruments are determined by using valuation techniques including discount cash flow analysis, with reference to inputs such as dividend stream, discount rates and other specific input relevant to those particular financial instruments.

There were no changes in valuation techniques during the period.

3.3 Group's valuation process

The Group's finance department reviews the valuations of the Group's financial instruments that are stated at fair value for financial reporting purposes, including level 3 fair values. These valuation results are then reported to the Chief Financial Officer and group senior management for discussions in relation to the valuation processes and the reasonableness of the valuation results.

3.4 Fair value of financial assets and liabilities measured at amortised cost

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

4. SEGMENT INFORMATION

The chief operating decision-makers have been identified as the executive directors. The executive directors review the Group's financial information mainly from product and geographical perspectives. From a geographical perspective, the executive directors assesse the performance of the Group's watch and optical operations in Hong Kong, Macau and Mainland China and the rest of Asia.

Sales between operating segments are carried out on terms equivalent to those prevailing in arm's length transactions. The executive directors assess the performance of the operating segments based on a measure of adjusted earnings before interest and tax (EBIT). This measurement basis excludes net corporate expenses.

	Six months ended 30 September 2014						
	Watch retail		Optical retail				
	Hong Kong, Macau and Mainland China *HK$'000*	Rest of Asia *HK$'000*	Hong Kong, Macau and Mainland China *HK$'000*	Rest of Asia *HK$'000*	Wholesale trading *HK$'000*	Other segment *HK$'000*	Group Total *HK$'000*
Revenues							
Gross segment	855,187	234,897	562,004	139,729	539,867	9,180	2,340,864
Inter-segment	–	–	–	–	(331,335)	(9,180)	(340,515)
	855,187	234,897	562,004	139,729	208,532	–	2,000,349
Segment results	127,498	(12,467)	36,236	(4,034)	59,134	(2,550)	203,817
Net corporate expenses							(47,699)
Operating profit							156,118
Finance costs							(16,630)
Share of loss of an associate							(913)
Profit before income tax							138,575
Income tax expense							(33,157)
Profit after income tax							105,418

4. **SEGMENT INFORMATION (Continued)**

	Six months ended 30 September 2013						
	Watch retail		Optical retail				
	Hong Kong, Macau and Mainland China *HK$'000*	Rest of Asia *HK$'000*	Hong Kong, Macau and Mainland China *HK$'000*	Rest of Asia *HK$'000*	Wholesale trading *HK$'000*	Other segment *HK$'000*	Group Total *HK$'000*
Revenues							
Gross segment	792,924	233,216	489,337	153,748	405,058	8,459	2,082,742
Inter-segment	–	–	–	–	(179,737)	(8,459)	(188,196)
	792,924	233,216	489,337	153,748	225,321	–	1,894,546
Segment results	121,056	(10,157)	21,288	4,327	52,078	(2,683)	185,909
Net corporate expenses							(34,516)
Operating profit							151,393
Finance costs							(17,067)
Share of profit of an associate							244
Profit before income tax							134,570
Income tax expense							(29,613)
Profit after income tax							104,957

There have been no material changes in total assets and total liabilities from the amount disclosed in the last annual financial statements.

5. **REVENUES**

	Six months ended 30 September	
	2014	2013
	HK$'000	*HK$'000*
Turnover		
Sales of goods	**2,000,349**	1,894,546
	2,000,349	1,894,546

6. OTHER GAINS / (LOSSES), NET

	Six months ended 30 September	
	2014	2013
	HK$'000	*HK$'000*
Loss on disposal of property, plant and equipment, net	**(540)**	(855)
Exchange gain/(loss), net	**2,840**	(3,380)
	2,300	(4,235)

7. OTHER INCOME

	Six months ended 30 September	
	2014	2013
	HK$'000	*HK$'000*
Building management fee income	**1,170**	1,170
Interest income	**598**	460
Sundries	**12,705**	11,624
	14,473	13,254

8. EXPENSES BY NATURE

Expenses included in arriving at the profit before income tax are analysed as follows:

	Six months ended 30 September	
	2014	2013
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment		
– Owned	**58,884**	58,943
– Leased	**–**	140
Amortisation of prepayment of lease premium	**3,471**	3,671
Operating leases	**362,515**	340,971
Provision for stocks	**1,664**	1,610
Donation	**2,610**	5,000
Employee benefit expense	**362,573**	337,084

9. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits for the six months ended 30 September 2014 (2013: 16.5%) less relief for available tax losses. Taxation on overseas profits has been calculated on the estimated assessable profits for the six months ended 30 September 2014 at the rates of taxation prevailing in those territories where the Group operates.

The amount of income tax charged to the consolidated income statement represents:

	Six months ended 30 September	
	2014	2013
	HK$'000	*HK$'000*
Current income tax		
Hong Kong profits tax	**31,174**	19,355
Overseas profits tax	**5,246**	10,878
Over provisions in respect of prior years	**(54)**	(367)
	36,366	29,866
Deferred income tax	**(3,209)**	(253)
Income tax expense	**33,157**	29,613

10. DIVIDENDS

	Six months ended 30 September	
	2014	2013
	HK$'000	*HK$'000*
Interim, declared, of HK$0.02 (2013: HK$0.036) per ordinary share	**20,929**	37,673

At a meeting held on 27 November 2014, the directors declared an interim dividend of HK$0.02 per ordinary share. This dividend is not recognised as a liability at the balance sheet date but will be reflected as an appropriation of retained earnings for the year ending 31 March 2015.

11. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 September 2014	2013
Weighted average number of ordinary shares in issue (thousands)	**1,046,474**	1,046,474
Profit attributable to equity holders of the Company (HK$'000)	**105,196**	104,706
Basic earnings per share (HK cents)	**10.05**	10.01

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group's dilutive potential ordinary shares in existence represent convertible bonds. The convertible bonds are assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the expense relating to the convertible bonds less the tax effect.

	Six months ended 30 September 2014	2013
Number of ordinary shares in issue throughout the year (thousands)	**1,046,474**	1,046,474
Effect of conversion of convertible bonds (thousands)	**190,268**	190,268
Weighted average number of ordinary shares adjusted for effect of dilution (thousands)	**1,236,742**	1,236,742
Profit attributable to equity holders of the Company (HK$'000)	**105,196**	104,706
Borrowing cost on convertible bonds (HK$'000)	**12,192**	12,579
Tax relief thereon (HK$'000)	**(1,071)**	(1,071)
Adjusted profit attributable to equity holders of the Company (HK$'000)	**116,317**	116,214
Diluted earnings per share (HK cents)	**9.41**	9.40

12. DEBTORS, DEPOSITS AND PREPAYMENTS

	30 September 2014 HK$'000	31 March 2014 HK$'000
Trade debtors, gross	**219,038**	225,380
Provision for impairment of trade debtors	**(407)**	(445)
Trade debtors, net	**218,631**	224,935
Deposits, prepayments and other debtors	**349,486**	351,080
	568,117	576,015
Less: non-current portion		
Deposits and prepayments	**(183,770)**	(152,521)
Current portion	**384,347**	423,494
Trade debtors analysed by invoice date *(note)*		
Below 60 days	**64,409**	73,930
Over 60 days	**154,629**	151,450
	219,038	225,380

Note:

The Group allows an average credit period of 60 days from the invoice date to its trade debtors.

13. CREDITORS AND ACCRUALS

	30 September 2014 HK$'000	31 March 2014 HK$'000
Trade creditors analysed by invoice date:		
Below 60 days	**392,306**	264,563
Over 60 days	**19,222**	48,997
	411,528	313,560
Other creditors and accruals	**271,616**	282,279
	683,144	595,839

14. COMMITMENTS

	30 September 2014 *HK$'000*	31 March 2014 *HK$'000*
Capital commitments for property, plant and equipment:		
Contracted but not provided for	**17,038**	21,066
Authorised but not contracted for	**7,430**	–
	24,468	21,066

MANAGEMENT DISCUSSION AND ANALYSIS

- Group Turnover up 5.6%
- Group Net Profit remaining stable at HK$105.2 million
- Group Operating Profit up 3.1% to HK$156.1 million
- Group Gross Profit Margin maintained at 61.6%

Notwithstanding hostile macroeconomic conditions, the Group reported a rise in turnover of 5.6% to HK$2,000.3 million and a net profit attributable to its equity holders of HK$105.2 million (2013: HK$104.7 million) for the six months ended 30 September 2014. Group operating profit increased by 3.1% to HK$156.1 million (2013: HK$151.4 million) and Group gross profit margin remained stable at 61.6% (2013: 61.6%).

The Group's businesses comprise principally of watch retailing ("CITY CHAIN"), optical retailing ("OPTICAL 88" and "eGG Optical Boutique"); and the wholesale trading of watches ("SEIKO" and "Suunto"). Operating around 660 stores, our businesses offer affordable lifestyle products and quality services targeting the middle income consumer in Asia.

INTERIM DIVIDEND

In view of the underlying economic conditions and current political climate in Hong Kong, the Board has adopted a prudent approach and recommends the payment of an interim dividend of HK$0.020 (2013: HK$0.036) per ordinary share. This represents a payout of 20% to the net profit attributable to equity holders for the six months ended 30 September 2014 (2013: 36%); a departure from past practice when interim payouts have generally been more than 30%.

Depending on the Group's full year results and the external conditions prevailing at that time, we intend to return to a dividend payout rate of not less than 30% for the FY14/15.

CITY CHAIN GROUP

- City Chain Group turnover up 6.2%

- City Chain Group EBIT up 3.7% to HK$115 million

During the period under review, the City Chain Group, which operates stores in Hong Kong, Macau, Mainland China, Singapore, Thailand and Malaysia together with on-line stores at http://citychain.tmall.com/ and http://titus.tmall.com/ posted a turnover growth of 6.2% to HK$1,090.1 million (2013: HK$1,026.1 million) whilst EBIT increased by around 4% to HK$115.0 million (2013: HK$110.9 million). This performance was achieved through a combination of operating efficiencies and initiatives put in place to accelerate turnover growth.

Hong Kong and Macau – CITY CHAIN

For the 1st half FY14/15, City Chain Hong Kong and Macau delivered a positive performance despite an acute slowdown in Mainlanders' spending by achieving a turnover growth of 6.4% to HK$753.4 million (2013: HK$707.9 million). Same store sales was up by approximately 3.3% and EBIT improved by 5.2% to HK$156.3 million (2013: HK$148.6 million).

City Chain Hong Kong continued to be a major contributor and outpaced the general retail market by posting close to a 7% increase in turnover of HK$657.9 million (2013: HK$615.7 million). An EBIT of HK$120 million (2013: HK$113.1 million), representing a rise of over 6% was also reported. However, the adverse external environment had a bigger impact on our Macau operations with turnover and EBIT edging up marginally compared to the previous period.

Affected by the Occupy movement, total sales for City Chain Hong Kong fell 6.9% year-on-year in October 2014, but the impact in November 2014 so far has been less severe. We continue to monitor the situation closely; and plans for various initiatives to capture the peak seasons will continue.

Mainland China – CITY CHAIN

In 1st half FY14/15, our Mainland operations continued to see the positive effects from the various initiatives implemented earlier in 4th quarter FY12/13. Therefore, despite slowing GDP growth, our operations on the Mainland posted strong top line growth of around 20% to HK$101.8 million. This was achieved at a gross profit margin of 60.8%, slightly better than that of the previous period.

The sales momentum was driven both by our more established operations in Guangdong Province, Beijing and Shanghai (reporting year-on-year turnover growth of 9.5%), with contributions also coming from our recently launched e-commerce business and new stores in Chongqing and Chengdu.

The loss sustained by our Mainland operations edged up slightly to HK$28.8 million (2013: HK$ 27.6 million) largely due to costs incurred by the new businesses above. However, the loss posted by existing operations in Guangdong Province, Beijing and Shanghai fell 5.7% compared to the same period last year. Further, we are also starting to achieve store level profitability in our more mature business operations in Guangdong Province.

In 3rd quarter FY14/15, we continue to see positive momentum owing to various marketing initiatives undertaken.

South East Asia – CITY CHAIN

The performance of our SE Asian watch retail operations in 1st half FY14/15 was largely mixed with Malaysia posting positive results and Singapore and Thailand both reporting losses.

Turnover was HK$234.9 million (2013: HK$233.2 million), remaining stable against that of the last corresponding period and a loss of HK$12.5 million was recorded (2013: HK$10.2 million).

Our Thai operations were severely affected by the local political situation and turnover declined by 21% leading to a loss of HK$5.8 million (2013: EBIT of HK$2.5 million). The political situation seems less fragile but with buying sentiment still weak, as a temporary measure, our operations have joined nationwide promotions to improve sales. In the medium term, we will be cutting down our exposure and implementing strict cost controls.

We are starting to see the positive effects from the restructuring and re-merchandising measures (adopted in 1st half FY13/14) reflected in the performance of our Malaysian operations; which outperformed domestic GDP growth by reporting marked improvements in turnover and EBIT. Turnover grew by 15% and an EBIT of HK$5.8 million was recorded compared to breakeven results during the same period last year.

Aggressive restructuring and re-merchandising of our Singapore operations continued into 1st half FY14/15 as 7 non-performing stores were closed and slow moving stock was cleared, the latter affecting gross margins. However, turnover remained stable and was maintained at about the same level as the previous period whilst the existing loss narrowed by 5.3% to HK$12.5 million (2013: HK$ 13.2 million). We are also starting to experience positive year-on-year same store sales growth despite reduced shop months. With the closure of non-performing stores completed in 1st half FY 14/15, we expect City Chain Singapore to deliver improved results for this fiscal year.

OPTICAL 88 GROUP

- Optical 88 Group turnover up 5%
- Optical 88 Group EBIT up 7.3% to HK$38.4 million
- Same store sales in Hong Kong/Macau and Southern China up by around 9%

Although Optical 88 Hong Kong and Macau posted a favourable set of results, the overall performance of the Optical 88 Group was affected by the under performance of our SE Asian business units.

For the period under review, the Optical 88 Group posted a turnover of HK$646.8 million, rising 5% (2013: HK$616.2 million) and an EBIT of HK$38.4 million up by 7.3% (2013: HK$35.8 million).

Hong Kong and Macau – OPTICAL 88

Our Optical 88 operations in Hong Kong and Macau were relatively less affected by the challenging sentiment but industry competition remained intense.

For the period under review, a strong turnover growth of around 10% was achieved by this business segment due to strategic and innovative measures adopted in previous years, and a turnover of HK$446.8 million was reported (2013: HK$408.5 million). Further, EBIT rose 30.2% to HK$54.7 million (2013: HK$42.0 million) as a result of ongoing initiatives to improve gross profit margin, trim operating costs and enhance operational efficiencies. Same store sales growth for Hong Kong and Macau was strong, going up by around 9%.

The Occupy movement has had a smaller effect on optical sales with turnover in October 2014 slipping minimally and a return to positive annual growth seen in sales in November 2014. We continue to monitor the situation closely.

Mainland China – OPTICAL 88

For the period under review, our Optical 88 operations which are principally located in Guangdong Province, reported an increase in turnover of nearly 12% to HK$60.3 million (2013: HK$53.9 million).

But a fragmented market with competition eager to offer deep discounts and low priced packages put pressure on gross margins, and with costs incurred in the opening of 4 new stores in Chengdu and Chongqing, a wider loss of HK$12.2 million (2013: HK$10.5 million) was sustained.

Nevertheless, as a result of measures previously put in place, we are starting to see improvements in operating efficiencies. For example, same store sales have increased by nearly 9% in Guangdong Province and rental growth is well contained due to our revised strategy of opening stores in second and third tier cities. We have also been working to lift gross margins and have seen an improvement in October/November 2014.

As the performance of our new stores in Chengdu and Chongqing has been encouraging, further store expansion in South West China will go ahead as planned; so initial setting up costs will continue to impact bottom line.

Provided top line growth is maintained, we expect to see improved results from our operations in Guangdong Province in 2nd half FY14/15.

South East Asia – OPTICAL 88

Faced with the volatile political situation in Thailand and generally poor external conditions in Singapore and Malaysia, our Optical 88 operations in SE Asia delivered one of its more disappointing first half year results as turnover fell 9% to HK$139.7 million (2013: HK$153.7 million) and a loss of HK$4 million was reported against an EBIT of HK$4.3 million for the previous period.

Historically, a major profit contributor to this business segment, our Thai operations saw EBIT falling sharply by 48% to HK$3.9 million whereas our operations in Singapore reported a larger loss of HK$8.4 million against the previous corresponding period (2013: HK$3.8 million). Our Malaysian operations, meanwhile, recorded breakeven results.

Alleviation measures were stepped up, and aggressive cost cutting in all three countries, including store consolidation in Singapore were undertaken during the period. The stringent cost containment measures will continue.

eGG OPTICAL BOUTIQUE

- Turnover more than doubled to HK$55 million
- Nearly breakeven in Hong Kong
- Stabilising loss of HK$5.7 million in Mainland China
- Same store sales up around 50%

Our innovative "eGG Optical Boutique" concept was first launched in Hong Kong in 2011. Currently, there are 13 stores in Hong Kong and another 19 stores on the Mainland.

In 1st half FY14/15, our eGG business performed well within expectations as turnover increased to HK$55 million (2013: HK$26.9 million). This increase was driven by the opening of 15 new shops in Hong Kong, Beijing, Chengdu, Chongqing, Shenyang and Dalian and a nearly 50% rise in same store growth.

For the period under review, eGG Hong Kong posted nearly breakeven results (2013: loss of HK$4.6 million) and a turnover of HK$34.1 million (2013: HK$20.9 million). Despite the Occupy movement, strong momentum continued as turnover increased close to 60% in October 2014. Therefore, we expect the current momentum to carry through into the 2nd half FY14/15.

eGG PRC recorded a turnover of HK$20.8 million (2013: HK$6.0 million). A loss of HK$5.7 million, similar to that of the previous period (2013: HK$5.6 million) was reported; notwithstanding, the initial loss sustained by our expansion outside of Guangdong Province into North Eastern cities such as Shenyang and Dalian; and Chongqing and Chengdu in South West China. At the same time, we are also beginning to see profitability in some stores.

Because of this, we have reviewed our store opening strategy and accelerated plans to open another 2 eGG stores in Hong Kong and 8 eGG stores on the Mainland in the next half year. These expansion plans continue to be closely reviewed and monitored.

SUPPLY CHAIN MANAGEMENT AND WHOLESALE TRADING

This business division is made up of the Group's watch supply chain and watch and optical wholesale units.

For the reporting period, turnover fell 7.5% to HK$208.5 million (2013: HK$225.3 million) whilst EBIT improved by 13.5% to HK$59.1 million (2013: HK$52.1 million). Our watch wholesale unit was likewise affected by the depressed sentiment but strict cost saving measures and the beneficial synergy effect with CITY CHAIN resulted in an improved EBIT performance compared to the relevant period last year.

THE FUTURE – Our vision for Greater China

A core part of the Group's strategy for sustainable growth is our vision to be a leading retail player in Greater China – aiming to transform Stelux into a major retailer in Greater China to complement our leading position in Hong Kong and our well established presence in South East Asia.

Over the last two fiscal years, we have worked particularly hard to drive change and to improve the performance of our watch and optical retail businesses on the Mainland, and so far we have seen an uptrend. Nevertheless, we acknowledge that much more needs to be done before our vision fully materialises.

Further, even though any short term effect from the ongoing political tensions will eventually dissipate, the longer term impact on Hong Kong is less certain.

With this in mind, the Group intends to accelerate the pace of our transformation to becoming a major retailer in Greater China, and in the upcoming few years will focus more resources on building our businesses on the Mainland.

FINANCE

The Group's gearing ratio at balance sheet date was 28% (at 31 March 2014: 28%), which was calculated based on the Group's net debt of HK$438 million (at 31 March 2014: HK$408 million) and shareholders' funds of HK$1,544 million (at 31 March 2014: HK$1,458 million). The Group's net debt was calculated based on the Group's borrowings of HK$521 million (at 31 March 2014: HK$535 million) and convertible bonds of HK$337 million (at 31 March 2014: HK$331 million) less the Group's bank balances and cash of HK$420 million (at 31 March 2014: HK$458 million). Of the Group's borrowings at balance sheet date, HK$403 million (at 31 March 2014: HK$464 million) were repayable within 12 months.

Of the Group's borrowings, 5% (at 31 March 2014: 5%) were denominated in foreign currencies. The Group's bank borrowings denominated in Hong Kong Dollars were on a floating rate basis determined with reference to either bank prime lending rates or short term inter-bank offer rates.

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

The Group does not engage in speculative derivative trading.

As at 30 September 2014, the Group does not have any significant contingent liabilities.

The Group does not have plans for material investments or change of capital assets.

CAPITAL STRUCTURE OF THE GROUP

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

CHANGES IN THE COMPOSITION OF THE GROUP

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

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

The Group's remuneration policies are reviewed on a regular basis and remuneration packages are in line with market practices in the relevant countries where the Group operates. As of 30 September 2014, the Group had 3,631 (at 30 September 2013: 3,612) employees.

DETAILS OF THE CHARGES ON GROUP ASSETS

At 30 September 2014, certain of the Group's freehold land and buildings amounting to HK$302 million (at 31 March 2014: HK$307 million) were pledged to secure banking facilities granted to the Group. At 30 September 2014, no prepayment of lease premium (31 March 2014: HK$6 million) was pledged.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 5 January 2015 (Monday) to 6 January 2015 (Tuesday) both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the entitlement to the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Registrar, Computershare Hong Kong Investor Services Limited, 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 2 January 2015 (Friday). The interim dividend will be paid on 16 January 2015 (Friday).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

CORPORATE GOVERNANCE

During the six months ended 30 September 2014, the Company has complied with the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Code"), except for the following deviations:

Code Provision A.2.1

Under Code Provision A.2.1 of the Code, the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. Under the current organisation structure of the Group, Mr. Joseph C.C. Wong is both Chairman and CEO of the Group. The Board is of the opinion that vesting the roles of both Chairman and CEO in Mr. Joseph C.C. Wong has the benefit of ensuring consistent leadership within the Group thus enabling more effective and efficient strategic planning and execution for the Group. Under this arrangement, the Board also believes that the balance of power and authority will not be compromised and is adequately ensured by the existing Board which comprises experienced and competent individuals with one-third of the Board being independent non-executive directors.

Code Provision A.4.2

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

Code Provision B.1.2

This Code deals with the terms of reference of a remuneration committee. The Company has adopted the terms of reference under Code Provision B.1.2(c)(i) except that the terms of reference do not include reviewing and determining the remuneration packages of senior management.

The Company believes that the remuneration packages of senior management should be the responsibility of the executive directors as they are in a better position to appraise their performance.

Audit Committee

On 9 April 2014, 23 June 2014 and 24 November 2014, the Audit Committee together with the management of the Company reviewed the effectiveness of the systems of internal control throughout the Group for the six months ended 30 September 2014 and discussed auditing and financial reporting matters including review of the Group's results for the year ended 31 March 2014 and for the six months ended 30 September 2014 respectively before they were presented to the Board of directors for approval. The external auditors met with the Audit Committee on 9 April 2014 and 23 June 2014 to discuss the Group's audit service plan and to review the Group's results for FY13/14 during the meetings.

Remuneration Committee

The Remuneration Committee met on 23 June 2014 to conduct a review on the salaries of the executive directors and determined the annual bonus scheme for FY14/15 for its executive directors.

Model Code for Securities Transactions by Directors of Listed Issuers

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

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

All directors complied with the provisions of the Model Code during the six months ended 30 September 2014.

PUBLICATION OF FINANCIAL INFORMATION AND INTERIM REPORT

This results announcement is published on the website of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk under "Latest Listed Company Information" and the Company's website at www.stelux.com. The Company's Interim Report for 2014/2015 will be despatched to the shareholders of the Company and will also be available on the above websites in due course.

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

Therefore, I urge you, brothers and sisters, in view of God's mercy, to offer your bodies as a living sacrifice, holy and pleasing to God – this is your true and proper worship. Do not conform to the pattern of this world, but be transformed by the renewing of your mind. Then you will be able to test and approve what God's will is – his good, pleasing and perfect will. For by the grace given me I say to every one of you: Do not think of yourself more highly than you ought, but rather think of yourself with sober judgment, in accordance with the faith God has distributed to each of you.

Romans 12:1-3

Hong Kong, 27 November 2014

Directors of the Company as at the date hereof:

Executive directors:
Chumphol Kanjanapas (also known as Joseph C. C. Wong) *(Chairman and Chief Executive Officer)*, Vincent Lau Tak Bui *(Chief Operating Officer)* and Wallace Kwan Chi Kin *(Chief Financial Officer)*

Non-Executive directors:
Sakorn Kanjanapas, Ma Xuezheng (also known as Mary Ma), Wong Yu Tsang Alex (also known as Alex Wong), Wu Chun Sang *(independent)*, Lawrence Wu Chi Man *(independent)* and Agnes Kwong Yi Hang *(independent)*