**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 2017

The directors of Stelux Holdings International Limited (the "Company") announce the interim results and financial information of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 September 2017 as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT
## FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

| | | **Unaudited Six months ended 30 September** | |
|---|---|---|---|
| | | **2017** | 2016 |
| | *Note* | ***HK$'000*** | *HK$'000* |
| Revenues | *4,5* | **1,353,255** | 1,453,506 |
| Cost of sales | | **(566,347)** | (586,691) |
| Gross profit | | **786,908** | 866,815 |
| Other gains, net | *6* | **6,915** | 67,952 |
| Other income | *7* | **12,921** | 12,652 |
| Selling expenses | | **(656,991)** | (727,138) |
| General and administrative expenses | | **(182,167)** | (198,163) |
| Other operating expenses | | **(15,224)** | (21,657) |
| Operating (loss)/profit | | **(47,638)** | 461 |
| Finance costs | | **(12,137)** | (46,298) |
| Loss before income tax | *8* | **(59,775)** | (45,837) |
| Income tax expense | *9* | **(2,123)** | (1,741) |
| Loss for the period | | **(61,898)** | (47,578) |

* *For identification purpose only*

## CONDENSED CONSOLIDATED INCOME STATEMENT (Continued)

| | | Unaudited Six months ended 30 September | |
|---|---|---|---|
| | | **2017** | 2016 |
| | *Note* | ***HK$'000*** | *HK$'000* |
| Attributable to: | | | |
| Equity holders of the Company | | **(62,005)** | (47,666) |
| Non-controlling interests | | **107** | 88 |
| Loss for the period | | **(61,898)** | (47,578) |
| Dividends | *10* | **–** | – |
| | | ***HK cents*** | *HK cents* |
| Loss per share attributable to the equity holders of the Company | *11* | | |
| – Basic and diluted | | **(5.93)** | (4.55) |

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017**

| | Unaudited Six months ended 30 September | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| Loss for the period | **(61,898)** | (47,578) |
| Other comprehensive income/(loss): | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences | **31,409** | (38,528) |
| Revaluation of available-for-sale financial assets | **405** | (60) |
| Other comprehensive income/(loss) for the period, net of tax | **31,814** | (38,588) |
| Total comprehensive loss for the period | **(30,084)** | (86,166) |
| Attributable to: | | |
| Equity holders of the Company | **(30,434)** | (86,191) |
| Non-controlling interests | **350** | 25 |
| Total comprehensive loss for the period | **(30,084)** | (86,166) |

## CONDENSED CONSOLIDATED BALANCE SHEET
## AS AT 30 SEPTEMBER 2017

| | Note | Unaudited 30 September 2017 HK$'000 | 31 March 2017 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Non-current assets | | | |
| Property, plant and equipment | | **409,285** | 403,213 |
| Prepayment of lease premium | | **28,498** | 31,282 |
| Intangible assets | | **100,037** | 99,699 |
| Deferred tax assets | | **90,889** | 87,944 |
| Available-for-sale financial assets | | **11,638** | 11,233 |
| Debtors, deposits and prepayments | *12* | **108,614** | 129,590 |
| | | **748,961** | 762,961 |
| Current assets | | | |
| Stocks | | **984,927** | 926,504 |
| Debtors, deposits and prepayments | *12* | **441,224** | 424,992 |
| Bank balances and cash | | **527,682** | 533,774 |
| | | **1,953,833** | 1,885,270 |
| Total assets | | **2,702,794** | 2,648,231 |
| **EQUITY** | | | |
| Capital and reserves attributable to the equity holders of the Company | | | |
| Share capital | | **104,647** | 104,647 |
| Reserves | | **783,998** | 814,432 |
| Shareholders' funds | | **888,645** | 919,079 |
| Non-controlling interests | | **7,430** | 7,080 |
| Total equity | | **896,075** | 926,159 |
| **LIABILITIES** | | | |
| Non-current liabilities | | | |
| Deferred tax liabilities | | **7,159** | 7,474 |
| Borrowings | | **14,797** | 14,710 |
| | | **21,956** | 22,184 |
| Current liabilities | | | |
| Creditors and accruals | *13* | **675,306** | 611,905 |
| Income tax payable | | **14,960** | 5,338 |
| Borrowings | | **1,094,497** | 1,082,645 |
| | | **1,784,763** | 1,699,888 |
| Total liabilities | | **1,806,719** | 1,722,072 |
| Total equity and liabilities | | **2,702,794** | 2,648,231 |

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

### 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 2017 annual financial statements, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("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 2017.

The following new standards and amendments are mandatory for the financial year beginning 1 April 2017 and have no material impact to the Group:

| | |
|---|---|
| HKAS 7 (Amendment) | Disclosure Initiative |
| HKAS 12 (Amendment) | Recognition of Deferred Tax Assets for Unrealised Losses |

The following new standards and amendments have been issued but are not effective for the financial year beginning 1 April 2017 and have not been early adopted:

| | | Effective for accounting periods beginning on or after |
|---|---|---|
| HKAS 40 (Amendment) | Transfer of investment property | 1 April 2018 |
| HKFRS 2 (Amendment) | Classification and measurement of share based payment transactions | 1 April 2018 |
| HKFRS 4 (Amendment) | Applying HKFRS 9 financial instruments with HKFRS 4 insurance contracts | 1 April 2018 |
| HKFRS 9 | Financial instruments | 1 April 2018 |
| HKFRS 10 (Amendment) and HKAS 28 (Amendment) | Sale or contribution of assets between an investor and its associate or joint venture | To be determined |
| HKFRS 15 | Revenue from contracts with customers | 1 April 2018 |
| HKFRS 15 (Amendment) | Clarifications to HKFRS 15 | 1 April 2018 |
| HKFRS 16 | Leases | 1 April 2019 |
| HK(IFRIC) – Int 22 | Foreign currency transactions and advance consideration | 1 April 2018 |
| HK(IFRIC) – Int 23 | Uncertainty over income tax treatments | 1 April 2019 |
| Annual improvements project | 2014-2016 projects | 1 April 2018 |

## 1. BASIS OF PREPARATION (Continued)

HKFRS 16 "Leases" – The Group is a lessee of its offices, retail stores and warehouses which are currently classified as operating leases. As at 30 September 2017, the aggregated future lease payments of the Group under operating leases was HK$771,303,000. HKFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to account for certain leases outside the statements of financial position. Instead, all long-term leases must be recognised in the form of assets (for the rights of use) and lease liabilities (for the payment obligations). Thus, each lease will be mapped in the Group's condensed consolidated balance sheet. Short-term leases with a lease term of twelve months or less and leases of low-value assets are exempt from such reporting obligations. The new standard will therefore result in recognition of a right-to-use asset and an increase in lease liabilities in the condensed statements balance sheet. In profit or loss, rental expenses will be replaced with depreciation and interest expense. It is expected that certain portion of these lease commitments will be required to be recognised in the condensed consolidated balance sheet as right of use assets and lease liabilities.

Apart from the aforementioned HKFRS 16, the directors of the Company are in the process of assessing of the financial impact of the adoption of the above new standards and amendments to standards. The directors of the Company will adopt the new standards and amendments to standards when they become effective.

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 condensed interim consolidated 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 2017.

## 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 2017.

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

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### 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 are measured at fair value and are classified as level 3.

There were no transfers of financial instruments between level 1, level 2 and 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 assess the performance of the Group's watch and optical operations in Hong Kong, Macau and Mainland China and the rest of Asia.

Revenue represents sales of goods. 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) and excludes unallocated income and net corporate expenses.

| | Six months ended 30 September 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Watch retail | | Optical retail | | | |
| | Hong Kong, Macau and Mainland China | Rest of Asia | Hong Kong, Macau and Mainland China | Rest of Asia | Wholesale trading | Group Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Revenues** | | | | | | |
| **Gross segment** | 439,842 | 154,525 | 527,181 | 89,839 | 128,074 | 1,339,461 |
| **Inter-segment** | – | – | – | – | 13,794 | 13,794 |
| | 439,842 | 154,525 | 527,181 | 89,839 | 141,868 | 1,353,255 |
| **Segment results** | (34,849) | (2,854) | 24,570 | (6,217) | 13,977 | (5,373) |
| **Net corporate expenses** | | | | | | (42,265) |
| **Operating loss** | | | | | | (47,638) |
| **Finance costs** | | | | | | (12,137) |
| **Loss before income tax** | | | | | | (59,775) |
| **Income tax expense** | | | | | | (2,123) |
| **Loss after income tax** | | | | | | (61,898) |

4. **SEGMENT INFORMATION (Continued)**

| | Six months ended 30 September 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Watch retail | | Optical retail | | | |
| | Hong Kong, Macau and Mainland China | Rest of Asia | Hong Kong, Macau and Mainland China | Rest of Asia | Wholesale trading | Group Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenues | | | | | | |
| Gross segment | 502,396 | 166,096 | 516,735 | 101,707 | 274,640 | 1,561,574 |
| Inter-segment | – | – | – | – | (108,068) | (108,068) |
| | 502,396 | 166,096 | 516,735 | 101,707 | 166,572 | 1,453,506 |
| Segment results | (39,112) | (10,322) | 25,627 | (17,516) | 21,589 | (19,734) |
| Unallocated income | | | | | | 75,901 |
| Net corporate expenses | | | | | | (55,706) |
| Operating profit | | | | | | 461 |
| Finance costs | | | | | | (46,298) |
| Loss before income tax | | | | | | (45,837) |
| Income tax expense | | | | | | (1,741) |
| Loss after income tax | | | | | | (47,578) |

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 | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| Turnover | | |
| Sales of goods | **1,353,255** | 1,453,506 |

## 6. OTHER GAINS, NET

| | Six months ended 30 September | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| Loss on disposal of property, plant and equipment, net | **(853)** | (491) |
| Exchange gain/(loss), net | **7,768** | (7,458) |
| Gain upon redemption of convertible bonds | **–** | 75,901 |
| | **6,915** | 67,952 |

## 7. OTHER INCOME

| | Six months ended 30 September | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| Building management fee income | **1,170** | 1,170 |
| Interest income | **781** | 1,738 |
| Sundries | **10,970** | 9,744 |
| | **12,921** | 12,652 |

## 8. EXPENSES BY NATURE

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

| | Six months ended 30 September | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| Depreciation of property, plant and equipment | | |
| – Owned | **45,097** | 49,360 |
| Amortisation of prepayment of lease premium | **2,903** | 2,928 |
| Amortisation of intangible assets | **1,182** | 1,173 |
| Operating leases on buildings | **279,980** | 342,465 |
| Provision for stocks | **6,835** | 3,215 |
| Donations | **263** | 121 |
| Employee benefit expenses | **287,747** | 304,717 |

## 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 2017 (2016: 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 2017 at the rates of taxation prevailing in those territories in which the Group operates.

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

| | Six months ended 30 September | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| Current income tax | | |
| Hong Kong profits tax | **5,376** | 3,782 |
| Overseas profits tax | **2,858** | 4,243 |
| Over provisions in respect of prior years | **(35)** | (27) |
| | **8,199** | 7,998 |
| Deferred income tax | **(6,076)** | (6,257) |
| Income tax expense | **2,123** | 1,741 |

## 10. DIVIDENDS

| | Six months ended 30 September | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| No interim dividend for 2017 (2016: nil) | **–** | – |

At a meeting held on 23 November 2017, the directors did not propose the payment of interim dividend for the six months ended 30 September 2017. (2016: nil)

## 11. LOSS PER SHARE

### Basic

Basic loss per share is calculated by dividing the loss 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 | |
|---|---|---|
| | **2017** | 2016 |
| Weighted average number of ordinary shares in issue (thousands) | **1,046,474** | 1,046,474 |
| Loss attributable to equity holders of the Company (HK$'000) | **(62,005)** | (47,666) |
| Basic loss per share (HK cents) | **(5.93)** | (4.55) |

### Diluted

Diluted loss per share for the six months ended 30 September 2017 and 2016 equal the basic loss per share since there was no diluted potential ordinary share.

## 12. DEBTORS, DEPOSITS AND PREPAYMENTS

| | **30 September 2017** | 31 March 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade debtors, gross | **269,100** | 252,701 |
| Less: provision for impairment of trade debtors | **(1,333)** | (1,253) |
| Trade debtors, net *(note)* | **267,767** | 251,448 |
| Deposits, prepayments and other debtors | **282,071** | 303,134 |
| | **549,838** | 554,582 |
| Less: non-current portion | **(108,614)** | (129,590) |
| Current portion | **441,224** | 424,992 |
| Trade debtors analysed by invoice date: | | |
| Below 60 days | **61,222** | 48,458 |
| Over 60 days | **207,878** | 204,243 |
| | **269,100** | 252,701 |

*Note:*

The Group engages designated import and export agents for the importation of products from the subsidiaries in Hong Kong to the subsidiaries in the Mainland China. The balances due from and due to the import and export agents are settled on a back-to-back basis, and hence, there are no fixed terms of settlement for such balances. The Group's trade debtors and trade creditors include balances due from and due to the import and export agents of HK$185,847,000 (at 31 March 2017: HK$175,081,000).

Other than the balances due from the import and export agents, the Group allows an average credit period of 60 days from the invoice date to its trade debtors.

## 13. CREDITORS AND ACCRUALS

| | 30 September 2017 *HK$'000* | 31 March 2017 *HK$'000* |
|---|---|---|
| Trade creditors analysed by invoice date: | | |
| Below 60 days | **206,699** | 125,986 |
| Over 60 days | **190,590** | 187,196 |
| | **397,289** | 313,182 |
| Other creditors and accruals | **278,017** | 298,723 |
| | **675,306** | 611,905 |

## 14. COMMITMENTS

### (a) Commitments under operating leases (where the Group is the lessee)

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

| | 30 September 2017 *HK$'000* | 31 March 2017 *HK$'000* |
|---|---|---|
| Buildings | | |
| Not later than one year | **397,418** | 524,186 |
| Later than one year but not later than five years | **370,025** | 347,852 |
| Later than five years | **3,860** | 4,624 |
| | **771,303** | 876,662 |

### (b) Operating leases arrangements (where the Group is the lessor)

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

| | 30 September 2017 *HK$'000* | 31 March 2017 *HK$'000* |
|---|---|---|
| Properties | | |
| Not later than one year | **5,459** | 1,091 |
| Later than one year but not later than five years | **11,087** | 1,093 |
| | **16,546** | 2,184 |

## MANAGEMENT DISCUSSION AND ANALYSIS

– Group Turnover decreased by 6.9% (FX neutral: 6.3%) to HK$1,353.3 million

– Group Net Loss reduced by 15.2% to HK$62 million

– Group Gross Profit Margin down from 59.6% to 58.1%

– Group Inventory increased by HK$58 million vs that as at 31 March 2017

– Positive Net cash inflow from operating activities

For the period under review, the Group posted a 6.9% (FX neutral: 6.3%) decline in turnover of HK$1,353.3 million (1H 2016: HK$1,453.5 million) and a loss attributable to Group equity holders of HK$62 million against a loss of HK$73.1 million for the corresponding period last year after excluding the non-cash impact of the convertible bonds.

The non-cash impact of the convertible bonds which were fully settled in September 2016 comprised:–
(i) the gain on redemption of convertible bonds of HK$75.9 million;
(ii) the amortization of share-based payment of convertible bonds of HK$9.3 million; and
(iii) an increase in the liability component of convertible bonds of HK$41.2 million
and contributed to a loss attributable to Group equity holders of HK$47.7 million in the last corresponding period.

Given the fragile retail environment, the Group continued with consolidation measures to improve shop productivity during the reporting period. Although Group turnover fell by 6.9%, largely due to an 11.3% decrease in number of shops, same store sales improved with encouraging growth seen in Mainland China and stabilising sales in Hong Kong and Southeast Asia. Gross profit margin remained under pressure at 58.1% compared to 59.6% in the same period last year.

Robust cost management and the adjustment of store portfolio to address rental pressures contributed to an 8.9% reduction in Group operating costs (excluding the accounting impact of the convertible bonds for the six months ended 30 September 2016).

Group inventory increased by 6.3% compared to that as at 31 March 2017 with inventory turnover days of 312 days (March 2017: 288 days) as stock ordering was brought forward due to the relocation of our Hong Kong Logistics Centre.

Group gearing ratio increased to 65.4% (March 2017: 61.3%) as Group net debts edged up to HK$581.6 million (March 2017: HK$ 563.6 million) against a decrease in shareholder's funds.

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2017 (2016: nil).

## CITY CHAIN GROUP

– City Chain Group turnover down 11.1%

– City Chain Group Loss before interest and tax (LBIT) of HK$37.7 million (1H 2016: HK$49.4 million)

The City Chain Group operates around 260 stores in Hong Kong, Macau, Mainland China, Singapore, Thailand and Malaysia together with on-line stores at https://citychain-hk.tmall.hk/, https://titus.world.tmall.com/ and http://mall.jd.com/index-54221.html. Turnover declined by 11.1% to HK$594.4 million (1H 2016: HK$668.5 million) due to a 17.9% decrease in number of operating shops and losses narrowed by 23.7% as a LBIT of HK$37.7 million (1H 2016: LBIT of HK$49.4 million) was reported.

### Greater China

Turnover for Greater China fell by 12.5% to HK$439.8 million (1H 2016: HK$502.4 million) and LBIT was reduced by 11% to HK$34.8 million (1H 2016: HK$39.1 million). Improvement in shop productivity was achieved in Mainland China, particularly in Southern China during the review period. Same store sales growth has also resumed in Hong Kong and Macau since August up to the reporting date. A refreshed CITY CHAIN image and an enriched brand portfolio contributed to a higher sell-through.

During the reporting period, the closure of loss-making shops and the positive impact from the expiry of high rental leases contributed to a 19% fall in operating costs. Further rental savings from high rental leases, particularly in Hong Kong and Macau, will be fully realised in FY18/19 as they expire.

CITY CHAIN tapped into the e-commerce business in Mainland China a few years ago. The turnover of our watch e-commerce business increased by more than 60% compared to the corresponding period last year. Further investment will be made to enhance customer experience at our existing platforms.

### Southeast Asia

Owing to store consolidation, our Southeast Asia operations reported a fall in turnover of 7.0% to HK$154.5 million (1H 2016: HK$166.1 million) as number of operating shops was reduced by 16.5%. Nonetheless, LBIT narrowed significantly to HK$2.9 million (1H 2016: LBIT of HK$10.3 million). The improved bottom line was mainly driven by higher shop contribution and better cost efficiency.

EBIT at our Malaysian operations more than tripled while LBIT at our Singapore operations was reduced by 79%. We have seen a sustained recovery at our Thai operations since Q4 FY16/17, with turnover growth and satisfactory same store sales growth recorded.

**Moving Forward – a Younger CITY CHAIN**

The subdued performance returned by the CITY CHAIN GROUP is not attributable to a loss in competitiveness but rather the combined severe challenges of a cyclical downturn in the retail business cycle and more fundamentally, a structural change in the wider watch industry. We have faced these challenges by changing and adapting. As such our market share in watch retail has been maintained.

In response to these structural changes, the CITY CHAIN GROUP is undergoing a major transformation to attract both a younger and local clientele with further new initiatives to be introduced to enhance customer experience, including an enriched product portfolio to meet changing consumer patterns.

Our refreshed young, open and welcoming CITY CHAIN stores with new layouts were first introduced in Hong Kong, Guangdong, and Thailand. During the period under review, store revamp continued to progress within expectation. The performance of these rejuvenated stores has proven positive and store rejuvenation will be rolled out in other regions.

Since August 2017 and up to the report date there has been some recovery in retail sentiment, as reflected in same store sales growth in our major markets. With transforming initiatives in place, we are better equipped to meet future challenges and therefore believe that the worst is behind us.

**OPTICAL 88 GROUP**

- Optical 88 Group turnover down by 2.9%

- Optical 88 Group EBIT increased to HK$32.0 million (1H 2016: HK$15.2 million)

The Optical 88 Group operates around 194 shops throughout Hong Kong, Macau, Mainland China, Singapore, Malaysia and Thailand delivering quality professional eye care/eyewear products and services, and hearing care products and services.

Turnover at Optical 88 Group decreased by 2.9% to HK$504 million (1H 2016: HK$518.9 million) with a 7.6% decrease in number of operating shops. With satisfactory shop performance and effective cost control measures, the Optical 88 Group recorded a higher EBIT of HK$32.0 million (1H 2016: HK$ 15.2 million).

**Greater China**

Optical 88 Greater China posted a marginal decline in turnover of 0.7% to HK$414.2 million (1H 2016: HK$417.2 million) with number of operating shops reduced by 4.1%. With improving operational efficiency and a stable cost structure, EBIT increased by 16.8% to HK$38.2 million (1H 2016: HK$32.7 million).

**Southeast Asia**

OPTICAL 88 operations in Southeast Asia posted a decrease in turnover of 11.7% to HK$89.8 million (1H 2016: HK$101.7 million) given a 10.2% reduction in shops. A narrowed LBIT of HK$6.2 million (1H 2016: LBIT HK$17.5 million) was recorded. This was partly attributable to a reduction in operating costs and an one-off charge incurred in the previous period last year.

**Becoming a HEALTHCARE PROVIDER**

Strategies and initiatives focused on developing a professional healthcare business will continue in line with OPTICAL 88's vision to become more than a leading optical retailer. Since the establishment of the first OPTICAL 88 Professional Eye Care Centre in 2010 followed later by OPTICAL 88 Family Eye Care concept stores in 2016, and the introduction of hearing care products and services in 2014, we now serve customers which span across all age groups. So far growth and development is within expectation and increased investment will be made to further develop the healthcare business.

**eGG OPTICAL BOUTIQUE**

– eGG Group turnover up by 13.5%

– eGG Group LBIT widened to HK$13.6 million (1H 2016: HK$7.1 million)

As a fast fashion optical retailer aimed at trend setting fashionistas, the eGG Group complements the OPTICAL 88 business operating over 80 eGG stores in Hong Kong, Mainland China and Southeast Asia together with an online store at https://eggyj.tmall.com.

For the period under review, the expected higher momentum did not materialise due to intense competition and turnover grew by 13.5% to HK$113.0 million (1H 2016: HK$99.6 million). This was insufficient to offset associated fixed operating costs and contributed to a higher LBIT of HK$13.6 million (1H 2016: HK$7.1 million), although break-even was recorded in Southern China. Meanwhile, performance at our eGG e-commerce business in Mainland China achieved encouraging growth as investment on marketing initiatives continued to attract traffic and widen customer appeal.

**Growing a fashionista paradise**

In the medium term, eGG will fine tune its shop portfolio/rollout and focus on improving operational efficiencies and for the longer term horizon, investments will continue to be made to grow eGG's currently sub-scale business.

## SUPPLY CHAIN MANAGEMENT AND WHOLESALE TRADING

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

Stiff competition faced by wholesale saw turnover decrease by 14.8% to HK$141.9 million (1H 2016: HK$166.6 million) as EBIT declined by 35.2% to HK$14.0 million (1H 2016: HK$21.6 million). During the period under review, processes within our watch supply chain unit were reviewed and restructured to improve operational efficiencies.

## GROUP OUTLOOK

Even though retail sentiment and the wider macro-economic environment is gradually improving, a cautious outlook is nevertheless prudent, and as such ongoing measures and initiatives including, robust cost containment, tight inventory management and maintaining a stable cash flow will continue for the remaining FY17/18.

## FINANCE

The Group's capital management, currency and interest rate movement are constantly monitored and reviewed by the management of the Group to address and manage relevant financial risks relating to the Group's operations. The Group maintains prudent treasury management policies to address liquidity to finance both short-term and long-term working capital needs for business operations. Funds are generated from business operating activities and banking facilities in the form of term loans and short-term trading facilities. Forecast and actual cash flow analyses are continuously monitored. Maturity of assets and liabilities and requirement of financial resources for business operations are prudently managed. The Group did not enter into any derivative financial instruments for speculative purposes.

Gearing ratio increased to 65.4% (31 March 2017: 61.3%) as shareholders' funds contracted to HK$888.6 million (31 March 2017: HK$919.1 million) and net debts rose by 3% to HK$581.6 million (31 March 2017: HK$563.6 million). The Group's net debts are based on the Group's bank borrowings of HK$1,109.3 million (31 March 2017: HK$1,097.4 million) less the Group's bank and cash balances of HK$527.7 million (31 March 2017: HK$533.8 million).

The Group's major borrowings are in Hong Kong dollars and mostly based on a floating rate at HIBOR or bank prime lending rates. As major revenues of the Group are in Hong Kong dollars and Macau dollars, the natural hedge mechanism was applied.

As at 30 September 2017, the Group's total equity funds amounted to HK$896.0 million. The Group's cash inflow from its operations amounted to HK$14.8 million and coupled with its existing cash and unutilized banking facilities will fund its future routine operational needs.

As at 30 September 2017, the Group's current assets and current liabilities were approximately HK$1,953.8 million (31 March 2017: HK$1,885.3 million) and HK$1,784.8 million (31 March 2017: HK$1,699.9 million), respectively. Group current ratio was approximately 1.09 (31 March 2017: approximately 1.11).

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

The Group does not engage in speculative derivative trading.

As at 30 September 2017, 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 2017, the Group had 2,969 (at 30 September 2016: 3,290) employees.

## DETAILS OF THE CHARGES ON GROUP ASSETS

At 30 September 2017, certain of the Group's property, plant and equipment amounting to HK$270.4 million (31 March 2017: HK$272.8 million) were pledged to secure banking facilities granted to the Group.

As at 30 September 2017, the Company had given guarantees to various banks to secure general banking facilities granted to certain subsidiaries amounting to HK$1,465.1 million (31 March 2017: HK$1,621.0 million).

## 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 2017, the Company has complied with the code provisions of Corporate Governance Code (the "Code Provisions") 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 the Chairman and CEO of the Group. The Company believes that with Mr. Joseph C.C. Wong acting as both Chairman and CEO, consistent leadership is ensured further enabling better strategic planning for the Group. The Board also believes that the non-separation of roles does not affect the balance of power and authority within the Board since the Board comprises of experienced and competent individuals, with the majority of the Board made up of 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.1.3

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

**Audit Committee**

On 20 November 2017, 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 2017 and discussed auditing and financial reporting matters including review of the Group's results for the six months ended 30 September 2017 before they were presented to the Board of directors for approval.

**Remuneration Committee, Nomination Committee and Corporate Governance Committee**

There are no updates on the Remuneration Committee, Nomination Committee and Corporate Governance Committee since the publication of the immediate preceding annual report of the Company.

**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 2017.

## 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 2017/2018 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*

So let us not grow weary in doing what is right, for we will reap at harvest time, if we do not give up.

Galatians 6:9

Hong Kong, 23 November 2017

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)* and Wallace Kwan Chi Kin *(Chief Financial Officer)*

*Independent Non-Executive directors:*
Wu Chun Sang, Lawrence Wu Chi Man and Agnes Kwong Yi Hang