

# STELUX Holdings International Limited

(incorporated in Bermuda with limited liability)

Website: <http://www.irasia.com/listco/hk/stelux>

## INTERIM REPORT AND CONDENSED ACCOUNTS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2000

The Directors are pleased to present the Group's interim report and condensed accounts for the six months ended 30th September 2000. The Group reported a profit attributable to shareholders of HK\$15.6 million for the period under review. The consolidated results of the Group for the six months ended 30th September 2000, the consolidated balance sheet as at 30th September 2000, the condensed consolidated cash flow statement and the condensed statement of recognised gains and losses of the Group for the six months ended 30th September 2000, all of which are unaudited, along with the relevant explanatory notes, are set out below.

### CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2000

	Note	Unaudited	
		Six Months ended 30th September 2000	1999
		HK\$'000	HK\$'000
Turnover	2	593,174	550,213
Cost of sales		(261,136)	(220,980)
Gross profit		332,038	329,233
Other income		16,515	19,565
Selling expenses		(176,807)	(186,666)
General and administrative expenses		(77,034)	(80,705)
Other operating expenses		(72,457)	(75,319)
Profit on repurchase of convertible notes		4,228	34,580
Foreign exchange gain on convertible notes		5,365	7,133
Net profit/(loss) on sales of land and buildings		17,799	(15,410)
Net unrealised (loss)/gain on marketable securities		(11,541)	9,015
Operating profit	3	38,106	41,426
Finance costs		(21,642)	(20,405)
Profit before taxation		16,464	21,021
Taxation	4	(780)	(559)
Profit after taxation		15,684	20,462
Minority interests		–	(83)
Profit attributable to shareholders		15,684	20,379
Earnings per share	6	<i>cents</i>	<i>cents</i>
– basic		1.68	2.18
– diluted		1.66	2.17

### CONSOLIDATED BALANCE SHEET AT 30TH SEPTEMBER 2000 AND 31ST MARCH 2000

	Note	Unaudited	
		30th September 2000	31st March 2000
		HK\$'000	HK\$'000
Fixed assets		957,963	1,047,772
Investment securities		4,299	4,299
Trademarks and patents		28,459	29,606
Current assets			
Stocks		379,770	361,912
Debtors and prepayments	7	351,675	328,073
Marketable securities		10,722	22,265
Cash and bank balances		63,007	45,082
		805,174	757,332
Current liabilities			
Bank overdrafts and short term loans			
Secured		100,207	55,396
Unsecured		4,913	25,009
Creditors and accruals	8	331,676	322,118
Convertible notes	9	240,459	275,652
Current portion of other long term liabilities	11	8,662	36,358
Taxation payable		10,952	14,024
		696,869	728,557
Net current assets		108,305	28,775
Employment of funds		1,099,026	1,110,452
Financed by:			
Share capital		93,634	93,634
Reserves	10	631,246	631,262
Shareholders' funds		724,880	724,896
Minority interests		1,749	1,670
Deferred taxation		134	149
Loans from shareholders		3,892	3,892
Other long term liabilities	11	368,371	379,845
Funds employed		1,099,026	1,110,452

### CONDENSED STATEMENT OF RECOGNISED GAINS AND LOSSES FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2000

	Unaudited	
	Six Months ended 30th September 2000	1999
	HK\$'000	HK\$'000
Exchange losses arising from translation of overseas subsidiary companies not recognised in the profit and loss account	(15,700)	(6,815)
Profit attributable to shareholders	15,684	20,379
Total recognised (losses)/gains	(16)	13,564

### NOTES TO CONDENSED INTERIM ACCOUNTS

#### 1. Principal accounting policies

These unaudited consolidated condensed interim accounts ("interim accounts") are prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No. 25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants, (as applicable to condensed interim accounts), and Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited. As a result of adoption of SSAP 2.101 "Presentation of financial statements", the presentation and classification of certain comparative figures have been adjusted or extended to conform with the current period's presentation.

The accounting policies adopted in the preparation of these interim accounts are consistent with those used in the annual accounts for the year ended 31st March 2000.

#### 2. Turnover and profit before taxation

The analysis of the Group's turnover and profit before taxation by activities and geography are as follows:

	Turnover		Profit before taxation	
	Unaudited		Unaudited	
	Six months ended 30th September 2000	1999	Six months ended 30th September 2000	1999
	HK'000	HK'000	HK'000	HK'000
Analysis by activities:				
Investment	906	24,729	(7,115)	52,702
Property	58,970	19,211	20,734	(15,544)
Retailing and trading	533,298	506,273	15,871	(3,749)
Group administration overheads	–	–	(13,026)	(12,388)
	593,174	550,213	16,464	21,021
Geographical analysis:				
Hong Kong	385,461	300,478	17,619	9,278
South East and Far East Asia	117,820	107,574	(1,075)	(224)
Europe	71,964	118,071	11,951	23,365
North America	10,262	17,719	(499)	646
Others	7,667	6,371	1,494	344
Group administration overheads	–	–	(13,026)	(12,388)
	593,174	550,213	16,464	21,021

#### 3. Operating profit

	Unaudited	
	Six Months ended 30th September 2000	1999
	HK\$'000	HK\$'000
Operating profit is stated after charging:		
Depreciation		
Owned fixed assets	23,319	22,452
Leased fixed assets	168	169
Amortisation of trademarks and patents	1,042	1,046
Loss on disposal of fixed assets	1,539	646
Provision for stock obsolescence and stocks written off	3,354	4,100
Provision for doubtful debts and bad debts written off	1,141	4,273
and after crediting:		
Gain on sales of marketable securities	–	10,404

#### 4. Taxation

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profit for the period less relief for available tax losses. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

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

	Unaudited	
	Six Months ended 30th September 2000	1999
	HK\$'000	HK\$'000
Hong Kong profits tax	(405)	–
Overseas taxation	(169)	(367)
Under provision in prior periods	(206)	(192)
	(780)	(559)

#### 5. Interim dividends

The Directors have resolved not to declare an interim dividend for this period (1999: nil).

#### 6. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$15,684,000 (1999: HK\$20,379,000) and on the weighted average number of 936,340,023 shares (1999: 936,340,023 shares) in issue during the period.

The calculation of diluted earnings per share is based on profit attributable to shareholders of HK\$15,684,000 (1999: HK\$20,379,000) and on the weighted average number of 936,340,023 shares (1999: 936,340,023 shares) in issue during the period plus the weighted average number of 5,857,627 shares (1999: 4,230,769 shares) deemed to have been issued at no consideration pursuant to the relevant outstanding options having been exercised.

#### 7. Debtors and prepayments

The Group allows an average credit period of 60 days to its trade debtors. Included in debtors and prepayments are trade debtors (net of provision for doubtful debts) with the following aging analysis:

	Unaudited	
	30th September 2000	31st March 2000
	HK\$'000	HK\$'000
Trade debtors		
1-60 days	24,426	20,565
Over 60 days	20,426	13,863
	44,852	34,428
Deposits, prepayments and other debtors	306,823	293,645
	351,675	328,073

#### 8. Creditors and accruals

Included in creditors and accruals are trade creditors with the following aging analysis:

	Unaudited	
	30th September 2000	31st March 2000
	HK\$'000	HK\$'000
Trade creditors		
1-60 days	92,092	58,349
Over 60 days	116,279	113,830
	208,371	172,179
Accrued expenses and other payables	123,305	149,939
	331,676	322,118

#### 9. Convertible notes

During the period, Swiss Francs Convertible Notes (the "Notes") amounting to Sfr 6.2 million were repurchased at an average discount of 12%. At the balance sheet date, forward contracts for purchase of Sfr 40.47 million at an average exchange rate of HK\$4.5818 to Sfr 1 had been arranged. Therefore, the same amount of the Notes outstanding were converted at the average exchange rate while the unhedged balance of the Notes were converted at current rate of the closing date.

#### 10. Share capital

There was no change in the Company's share capital during the half year ended 30th September 2000. During the period, no further share options were granted by the Company and no share options outstanding as at 31st March 2000 were exercised by the option holders.

#### 11. Other long term liabilities

	Note	Unaudited	
		30th September 2000	31st March 2000
		HK\$'000	HK\$'000
Bank loans, secured	(a)	273,590	308,478
Obligations under finance leases	(a)	1,037	5,319
Loan from a related company	(b)	32,000	32,000
Retention money payable		70,406	70,406
		377,033	416,203
Amount payable within one year included under current liabilities		8,662	36,358
		368,371	379,845

(a) The bank loans and obligations under finance leases are repayable as follows:

	Bank loans, secured		Obligations under finance leases	
	Unaudited 30th September 2000	31st March 2000	Unaudited 30th September 2000	31st March 2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	8,018	32,317	644	4,041
In the second year	8,466	18,378	393	1,255
In the third to fifth year	243,581	252,213	–	23
After the fifth year	13,525	5,570	–	–
	273,590	308,478	1,037	5,319

(b) The loan is unsecured, carries interest at prime rate and is repayable after 30th September 2001.

#### 12. Contingent liabilities

	Group		Company	
	Unaudited 30th September 2000	31st March 2000	Unaudited 30th September 2000	31st March 2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(a) Guarantees to secure banking facilities for:				
Subsidiary companies	–	–	902,341	674,841
Third parties	–	1,190	–	–
Other guarantees	–	–	–	–
Subsidiary companies	–	–	240,459	491,450
(b) Bills discounted	901	1,093	–	–
(c) Liability not provided for in respect of employees who have completed the required number of years of service under the Employment Ordinance to be eligible for long service payments on termination of their employment	8,669	8,150	–	–
(d) The status of the Group's litigation, arbitrations and liability for latent defects in respect of the sale of Titus Square were fully disclosed in the Annual Report 2000 except that determinations of the arbitrations are anticipated in the later part of 2001.				

#### 13. Commitments

(a) Commitments in respect of expenditure on leasehold improvements

	Unaudited	
	30th September 2000	31st March 2000
	HK\$'000	HK\$'000
Contacted but not provided for	5,501	8,218
(b) Operating lease commitments payable in the next twelve months, analysed according to the period in which the leases expire, are as follows:		

	Land and buildings		Plant and machinery	
	Unaudited 30th September 2000	31st March 2000	Unaudited 30th September 2000	31st March 2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	46,582	48,907	383	398
In the second to fifth year	162,622	114,026	172	315
After the fifth year	–	225	–	–
	209,204	163,158	555	713

(c) The details of a subsidiary company's commitment to repurchase a property previously sold were fully disclosed in the Annual Report 2000 except that the relevant subsidiary company and the purchaser had agreed to extend the exercise date of the option for one year to 27th February 2002.

#### 14. Related party transactions

	Unaudited	
	Six Months ended 30th September 2000	1999
	HK\$'000	HK\$'000
Purchases of goods from a related company	16,269	4,062
Rental income from related companies	975	975
Interest income from a related company	2,235	2,181
Interest expense paid to a related company	1,499	857
Management fee receivable from a related company	–	980

The terms of these related party transactions had not changed from those disclosed in the Annual Report 2000.

#### 15. Subsequent events

After 30th September 2000, the Group's Notes in a total nominal sum of Sfr 23,300,000 were repurchased at an average discount of 10% and were subsequently cancelled.

### MANAGEMENT DISCUSSION AND ANALYSIS REVIEW OF GROUP OPERATIONS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2000.

The Group reported a profit attributable to shareholders of HK\$15.6 million compared to HK\$20.4 million last year.

#### Retail and Trading Division

The results of the Group's Retail and Trading Division have largely improved. A profit of HK\$15.9 million was recorded compared to a loss of HK\$3.8 million over the same period last year. All our local retail chains recorded favourable growth both in terms of turnover and operating results. Turnover at City Chain, Optical 88 and Hipo.fant improved by 39%, 14% and 31% respectively.

City Chain Hong Kong and Macau reported a profit of HK\$6.6 million this year, a substantial turnaround from the same period last year when losses of HK\$12.9 million were reported. However, turnover and profits of our watch operations in South East Asia and Taiwan were undermined by political instability in Indonesia and Taiwan. Therefore, turnover for this region only improved by 7%. Watch operations in the PRC reported a healthy 16% increase in turnover as a result of an improvement in sales at department stores and an increase in the number of adidas watch counters.

During the period under review, we continued to build upon City Chain's reputation further consolidating its market position in Hong Kong and regionally as a forefront fashion and trend setting watch chain. Shop renovations undertaken to create a fresh and sophisticated look and the introduction of new watch brands has helped us further to improve results. To meet the challenges of the e-commerce revolution and to complement our aspirations to become a formidable leader in the watch industry, City Chain launched its own cybermall, www.citychain.com in December this year. www.citychain.com provides latest news on watch trends and also offers on-line sales. Continuing to take advantage of relatively low rentals, more stores were opened at selected prime sites.

Optical 88 also reported improved profits compared to the same period last year. We continued to increase our market share by opening more shops. We will continue with our franchising strategy as this has proven to be successful.

Hipo.fant continued to report favourable growth and improvement during the period. Increase in turnover was due to several reasons; an increase in number of outlets and favourable response to our products. Breakeven figures were recorded compared to a loss for the same period last year.

The Group's total stores increased from 356 as at 31st March 2000 to 403 as at 30th November 2000.

Our export division and overseas subsidiaries recorded a 37% fall in turnover during the period dragging down profits. This was due partly to the strength of the US\$ resulting in high unit export prices and partly to the life cycle of previous product ranges. We see turnover improving as new and more price competitive products are launched in the later half of the year.

#### Property Investment

During the period, two shop properties were disposed of at an aggregate sales proceeds of HK\$107 million. The net profit was about HK\$18 million. Stelux House continues to contribute stable income and leases due for renewal have been renewed at satisfactory rents.

#### Prospects