

STELUX Holdings International Limited

寶光實業(國際)有限公司*

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

ANNOUNCEMENT OF RESULTS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2004

RESULTS

The Directors are pleased to report the unaudited consolidated results of the Group for the six months ended 30th September 2004.

	Note	Unaudited	
		Six months ended 30th September 2004	2003
		HK\$'000	HK\$'000
Turnover	2	672,618	559,907
Cost of sales		(231,208)	(205,467)
Gross profit		441,410	354,440
Other income		7,301	8,337
Selling expenses		(291,672)	(247,595)
General and administrative expenses		(79,896)	(72,249)
Other operating expenses		(24,895)	(22,602)
Operating profit before financing	3	52,248	20,331
Finance costs		(10,756)	(14,155)
Profit before taxation		41,492	6,176
Taxation charge	4	(2,026)	(3,188)
Profit after taxation		39,466	2,988
Minority interests		–	–
Profit attributable to shareholders		39,466	2,988
Dividend	5	9,513	–
Earnings per share	6	HK cents	HK cents
– basic		4.18	0.32
– diluted		4.17	0.32

NOTES:

1. Principal accounting policies

These unaudited consolidated interim accounts (“interim accounts”) are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25, “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and Appendix 16 of the Rules Governing the Listing of Securities (“Listing Rules”) on the Stock Exchange of Hong Kong Limited (“Stock Exchange”). These interim accounts should be read in conjunction with the 2004 Annual Report. 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 2004.

2. Segment information

Primary reporting format – business segments

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

	Unaudited	
	Six months ended 30th September 2004	2003
	HK\$'000	HK\$'000
Current taxation		
Overseas profits tax	1,324	1,323
Under provision in respect of prior years	702	–
	2,026	1,323
Deferred taxation	–	1,865
Taxation charge	2,026	3,188

5. Dividend

	Unaudited	
	Six months ended 30th September 2004	2003
	HK\$'000	HK\$'000
Interim, declared, of HK\$0.01 (2003: Nil) per ordinary share	9,513	–

At a meeting held on 16th December 2004, the directors declared an interim dividend of HK\$0.01 per ordinary share. This declared dividend is not reflected as a dividend payable in the interim accounts, but will be reflected as an appropriation of retained earnings for the year ended 31st March 2005.

6. Earnings per share

The calculation of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$39,466,000 (2003: HK\$2,988,000). The basic earnings per share is based on the weighted average number of 943,438,384 shares (2003: 936,340,023 shares) in issue during the period. The diluted earnings per share is based on 946,580,231 shares (2003: 938,486,364 shares) which is the weighted average number of shares in issue during the period plus the weighted average number of 3,141,847 shares deemed to be issued at no consideration if all outstanding options had been exercised.

7. Contingent liabilities

	Unaudited		Audited	
	30th September 2004	2003	31st March 2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bills discounted	8,885	–	5,448	–

MANAGEMENT DISCUSSION AND ANALYSIS REVIEW OF GROUP OPERATIONS

The Group is pleased to announce a marked increase in profits attributable to shareholders of HK\$39 million for the six months ended 30th September 2004 compared to a profit of HK\$3 million during the same period last year. The directors have declared that an interim dividend of HK\$0.01 per share be payable for the six months ended 30th September 2004.

Retail

This Division which comprises the Group's three core retail chains, City Chain, Optical 88 and Hipo.fant, reported a more than ten fold increase in profits of HK\$37.8 million for the first six months compared to HK\$3.2 million during the same period last year. Turnover increased by 28% to HK\$537 million. The significant growth in profits was due in part to SARS which had the effect of lowering sales during the corresponding period last year.

Apart from the strong recovery in the retail sector, continued improvements in our gross margins and stringent cost control measures contributed to the good results. Aggressive expansion has continued in Thailand, Malaysia, Singapore, Mainland China and Macau. As of 30th September 2004, the Group has 483 shops/counters, an increase of 65 shops/counters from the same period last year.

Over the next three years, the Group will further invest in its retail businesses. To ensure our retail businesses are not overly reliant on the Hong Kong market, the Group will simultaneously expand its watch and optical businesses in Mainland China, Macau and South East Asia. The Group believes a diversified expansion in the region will improve its yearly sales and profits by up to two-digit figures in the next few years.

City Chain

City Chain Hong Kong reported an increase of profits of HK\$18 million up from breakeven during the same time last year. Turnover increased by 34%.

Regionally (excluding mainland China), City Chain subsidiaries generally also reported improved performances. Compared to the first six months of last year, profits have increased by 46% to HK\$15 million and turnover has increased by 27%.

The performance of City Chain operations in Mainland China, although having yet to break-even, continued to meet expectations. Taking advantage of CEPA entry requirements, the expansion of City Chain operations will therefore be expedited.

Optical 88

Optical 88 Hong Kong and in the rest of Asia also reported much better results compared to the first six months of the last financial year. Turnover increased by 24% and a profit of HK\$11 million was reported compared to HK\$2 million during the same period last year. We expect results for the optical business in the second half of this financial year will further improve.

During the period under review, our Asian operations reported satisfactory growth in profits with Thailand and Macau in particular contributing to such growth. Although our operations in Guangzhou have yet to report profits, however, taking advantage of CEPA, expansion will be expedited.

Hipo.fant

Hipo.fant Hong Kong and regionally reported improved performances compared to the corresponding period last year. Losses for the first six months narrowed to HK\$5.6 million down from HK\$8.6 million last year. This was due to two factors – the closure of non-performing shops and improved gross margins. The Group has evaluated Hipo.fant's performance and the future development of this business. Action has been taken for the improvement of its operations. Improved results will be seen in the second half of this financial year.

Watch Manufacturing, Export and Trading

Overall sales turnover at our watch manufacturing, export and trading subsidiaries was unchanged from the same period last year. However, profits for the period under review increased by 66% to HK\$15 million due to the improvement in profit margins.

In November 2004, the trade has been informed that the Group's watch partnership with adidas will come to an end in December 2005. Some short term impact is expected on the sales turnover of our UK trading and Hong Kong export subsidiaries. Although the partnership with adidas has been successful, the contract restricts the Group from entering into licensing arrangements with other brands. Early termination of the contract means the Group has a better opportunity to build a multi-brand watch export business better poised for further long term growth.

The Group has recently signed exclusive watch licenses for the Everlast brand in Europe and Asia and Everlast watches are scheduled for launch at the Basel Fair in Spring of next year.

Property Investment

Rental income in respect of Stelux House for the period was approximately HK\$12 million (2003: HK\$16 million). The average floor area occupied during the period was approximately 76% (2003: 93%).

FINANCE

The Group's bank borrowings at balance sheet date were HK\$491 million (at 31st March 2004: HK\$503 million), out of which, HK\$238 million (at 31st March 2004: HK\$253 million) were repayable within 12 months. The Group's gearing ratio at balance sheet date was 0.59 (at 31st March 2004: 0.61), which was calculated based on the Group's bank borrowings and shareholders' funds of HK\$835 million (at 31st March 2004: HK\$820 million).

Of the Group's bank borrowings, 3% (at 31st March 2004: 4%) was denominated in foreign currencies. The Group's bank borrowings denominated in Hong Kong Dollars were on a floating rate basis at either bank prime lending rates or short-term inter-bank offer rates.

The Group does not engage in speculative derivative trading.

PROSPECTS

The Group will concentrate on the development of its core businesses – watch and optical businesses, especially the development of retail chain stores in the region. It is expected that funds for such investments will come from internal funds and bank borrowings.

Riding on the back of strong resurgence in the retail sectors in Hong Kong and Asian countries where the Group operates and further based on our performance to date in the third quarter of 2004/05, we are optimistic that the Group's overall businesses will achieve satisfactory growth for the rest of the financial year.

CAPITAL STRUCTURE OF THE GROUP

There was no change in the capital structure of the Group during the period except that all the share options outstanding as at 31st March 2004 were exercised and the details are disclosed in the interim accounts.

CHANGES IN THE COMPOSITION OF THE GROUP DURING THE INTERIM PERIOD

There were no material acquisitions and disposals of subsidiary companies and there were no material acquisitions of associated companies during the interim period. There was no change in the composition of the Group during the interim period.

SEGMENTAL INFORMATION

An analysis of the Group's segment turnover and segment results by business activities and markets is shown in note 2 to the interim accounts.

NUMBER AND REMUNERATION OF EMPLOYEES, REMUNERATION POLICIES, BONUS AND SHARE OPTION SCHEMES 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 30th September 2004, the Group had 2,165 (at 30th September 2003: 1,915) employees. Details of outstanding share options are disclosed in the above section, “Capital Structure of the Group”.

DETAILS OF THE CHARGES ON GROUP ASSETS

At 30th September 2004, certain of the Group's land and buildings amounting to HK\$174,778,000 (at 31st March 2004: HK\$174,616,000), investment properties amounting to HK\$557,000,000 (at 31st March 2004: HK\$557,000,000), bank deposits amounting to HK\$2,328,000 (at 31st March 2004: HK\$2,024,000) and other debtor of HK\$50,000,000 (at 31st March 2004: HK\$50,000,000) were pledged to secure banking facilities granted to the Group.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 28th January 2005 (Friday) to 2nd February 2005 (Wednesday) 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, 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 27th January 2005 (Thursday). The interim dividend will be paid on 15th February 2005 (Tuesday).

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 period.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”) throughout the period except that the independent non-executive directors of the Company are not appointed for a specific term but subject to retirement by rotation in accordance with the Company's Bye-laws.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (“MODEL CODE”)

The Company has adopted Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by directors of the Company. The Company confirms that after having made specific enquiry of all its directors, its directors have confirmed that they have complied with the Model Code from 16th June 2004 up to and including 30th September 2004. The directors confirmed in the Group's Annual Report 2004 that they have complied with the Model Code from 31st March 2004 up to and including 15th June 2004.

AUDIT COMMITTEE

Pursuant to the Listing Rules, the Company has set up an audit committee with written terms of reference comprising three independent non-executive directors, namely Mr Kwong Yiu Chung, Dr Chu Chun Keung, Sydney and Mr Wu Chun Sang. The principal responsibilities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls. A meeting of the Audit Committee was held on 9th December 2004 to review the Group's interim results for the period ended 30th September 2004 before they were presented to the board of directors for approval.

DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

A detailed announcement of the interim results of the Group for the six months ended 30th September 2004 containing all the information required by paragraph 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange (http://www.hkex.com.hk) in due course.

On behalf of the Board

Joseph C. C. Wong

Vice Chairman and Chief Executive Officer

Hong Kong, 16th December 2004

Directors of the Company as at the date hereof:

Executive directors:

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

Non-Executive directors:

Sakorn Kanjanapas, Kwong Yiu Chung (independent), Sydney Chu Chun Keung (independent) and Wu Chun Sang (independent).

* For identification purpose only

3. Operating profit before financing

	Unaudited	
	Six months ended 30th September 2004	2003
	HK\$'000	HK\$'000
Operating profit before financing is stated after charging:		
Depreciation		
Owned fixed assets	25,472	22,775
Leased fixed assets	268	1,291
Amortisation charge of trademarks	1,136	1,056
Loss on disposal of fixed assets	66	129
Provision for stock obsolescence and stocks written off	1,178	689
Provision for doubtful debts and bad debts written off	406	3,261

4. Taxation charge

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) 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.

Secondary reporting format – geographical segments

	Turnover		Segment results	
	Unaudited Six months ended 30th September 2004	2003	Unaudited Six months ended 30th September 2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	362,635	300,000	19,597	(3,172)
South East and Far East Asia	186,756	143,867	21,424	14,599
Europe	91,543	101,712	20,092	20,316
North America	13,967	6,944	7,698	(57)
Mainland China	17,717	7,384	(327)	369
	672,618	559,907	68,484	32,055