

STELUX Holdings International Limited
寶光實業(國際)有限公司

Incorporated in Bermuda with limited liability

<http://www.stelux.com>

Stock Code: 84

INTERIM REPORT 2020/2021

website: www.stelux.com

**INTERIM REPORT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020**

The directors of Stelux Holdings International Limited (the “Company”) report the interim results and financial information of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2020. The condensed consolidated results of the Group for the six months ended 30 September 2020, the condensed consolidated balance sheet as at 30 September 2020, the condensed consolidated cash flow statement and the condensed consolidated statement of changes in equity of the Group for the six months ended 30 September 2020, all of which are unaudited, along with the relevant explanatory notes, are set out below.

**CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020**

		Unaudited	
		Six months ended	
		30 September	
	<i>Note</i>	2020	2019
		HK\$'000	HK\$'000
Revenues	2	315,121	593,686
Cost of sales		(168,004)	(296,721)
		<hr/>	<hr/>
Gross profit		147,117	296,965
Other losses	3	(7,289)	(6,849)
Other income	4	62,116	24,754
Selling expenses		(119,962)	(229,547)
General and administrative expenses		(79,071)	(109,148)
Other operating expenses		(30,612)	(16,541)
Finance costs		(17,442)	(18,513)
		<hr/>	<hr/>
Loss before tax	5	(45,143)	(58,879)
Income tax expense	6	(5,234)	(8,639)
		<hr/>	<hr/>
Loss for the period		(50,377)	(67,518)
		<hr/>	<hr/>
Attributable to:			
Equity holders of the Company		(50,494)	(67,627)
Non-controlling interests		117	109
		<hr/>	<hr/>
Loss for the period		(50,377)	(67,518)
		<hr/>	<hr/>
		HK cents	HK cents
Loss per share	8		
– Basic and diluted		(4.83)	(6.46)
		<hr/>	<hr/>

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020**

	Unaudited	
	Six months ended	
	30 September	
	2020	2019
	HK\$'000	HK\$'000
Loss for the period	<u>(50,377)</u>	<u>(67,518)</u>
Other comprehensive income/(loss):		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences of translation of foreign operations	<u>16,316</u>	<u>(2,738)</u>
	<u>16,316</u>	<u>(2,738)</u>
<i>Item that will not be reclassified to profit or loss:</i>		
Change in fair value of equity investments at fair value through other comprehensive income	<u>236</u>	<u>28</u>
	<u>236</u>	<u>28</u>
Other comprehensive income/(loss) for the period	<u>16,552</u>	<u>(2,710)</u>
Total comprehensive loss for the period	<u><u>(33,825)</u></u>	<u><u>(70,228)</u></u>
Attributable to:		
Equity holders of the Company	<u>(34,115)</u>	<u>(70,446)</u>
Non-controlling interests	<u>290</u>	<u>218</u>
Total comprehensive loss for the period	<u><u>(33,825)</u></u>	<u><u>(70,228)</u></u>

**CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 SEPTEMBER 2020**

		Unaudited 30 September 2020 HK\$'000	31 March 2020 HK\$'000
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment	9	120,302	131,315
Investment properties		519,800	519,800
Right-of-use assets	10	145,203	198,704
Intangible assets		58,917	57,541
Deferred tax assets		38,172	38,384
Equity investments at fair value through other comprehensive income		5,680	5,444
Deposits and prepayments	12	27,344	36,638
Total non-current assets		<u>915,418</u>	<u>987,826</u>
Current assets			
Inventories	11	346,205	373,040
Trade and other receivables	12	168,659	163,454
Pledged bank deposits		–	54,579
Cash and cash equivalents		167,446	127,016
Total current assets		<u>682,310</u>	<u>718,089</u>
Total assets		<u><u>1,597,728</u></u>	<u><u>1,705,915</u></u>
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	13	104,647	104,647
Reserves		391,684	425,799
Shareholders' funds		496,331	530,446
Non-controlling interests		6,945	6,655
Total equity		<u>503,276</u>	<u>537,101</u>
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		27,706	32,933
Lease liabilities		83,209	118,251
Total non-current liabilities		<u>110,915</u>	<u>151,184</u>
Current liabilities			
Trade and other payables	14	198,155	172,583
Income tax payable		23,748	16,288
Bank and other borrowings	15	628,944	651,449
Lease liabilities		132,690	177,310
Total current liabilities		<u>983,537</u>	<u>1,017,630</u>
Total liabilities		<u><u>1,094,452</u></u>	<u><u>1,168,814</u></u>
Total equity and liabilities		<u><u>1,597,728</u></u>	<u><u>1,705,915</u></u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020**

	Unaudited	
	Six months ended	
	30 September	
	2020	2019
	HK\$'000	HK\$'000
Cash flows from operating activities		
Cash generated from operations	122,996	102,150
Interest paid	(17,442)	(12,793)
Hong Kong profits tax refunded	-	10
Overseas profits tax paid	(2,568)	(10,998)
Overseas profits tax refunded	837	1,276
	<u>103,823</u>	<u>79,645</u>
Net cash generated from operating activities		
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,374)	(8,515)
Proceeds from sale of property, plant and equipment	92	107
Interest received	159	468
	<u>(1,123)</u>	<u>(7,940)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Drawdown of bank loans	42,742	54,090
Repayment of bank loans	(65,247)	(100,061)
Capital element of finance lease payments	-	(28)
Principal portion of lease payments	(97,370)	(102,185)
Decrease in pledged bank deposits	54,579	-
	<u>(65,296)</u>	<u>(148,184)</u>
Net cash used in financing activities		
Net increase/(decrease) in cash and cash equivalents	37,404	(76,479)
Cash and cash equivalents at 1 April	127,016	234,869
Effect of foreign exchange rate changes	3,026	3,693
	<u>167,446</u>	<u>162,083</u>
Cash and cash equivalents at 30 September		
Analysis of the balance of cash and cash equivalents:		
Bank balances and cash	167,446	162,083
	<u><u>167,446</u></u>	<u><u>162,083</u></u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020**

	Unaudited								
	Attributable to equity holders of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Revaluation reserve HK\$'000	Exchange reserve HK\$'000	Property, plant and equipment revaluation reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 April 2019	104,647	1,977	12,719	(54,114)	403,684	516,058	984,971	7,129	992,100
Effect of adoption of HKFRS 16	-	-	-	-	-	9	9	-	9
At 1 April 2019 (restated)	104,647	1,977	12,719	(54,114)	403,684	516,067	984,980	7,129	992,109
(Loss)/profit for the period	-	-	-	-	-	(67,627)	(67,627)	109	(67,518)
Other comprehensive income/(loss):									
Exchange differences of translation of foreign operations	-	-	-	(2,847)	-	-	(2,847)	109	(2,738)
Change in fair value of equity investments at fair value through other comprehensive income	-	-	28	-	-	-	28	-	28
Total comprehensive income/(loss) for the period ended 30 September 2019	-	-	28	(2,847)	-	(67,627)	(70,446)	218	(70,228)
Dividends paid	-	-	-	-	-	-	-	(247)	(247)
At 30 September 2019	<u>104,647</u>	<u>1,977</u>	<u>12,747</u>	<u>(56,961)</u>	<u>403,684</u>	<u>448,440</u>	<u>914,534</u>	<u>7,100</u>	<u>921,634</u>
At 1 April 2020	<u>104,647</u>	<u>1,977</u>	<u>3,193</u>	<u>(96,215)</u>	<u>403,684</u>	<u>113,160</u>	<u>530,446</u>	<u>6,655</u>	<u>537,101</u>
(Loss)/profit for the period	-	-	-	-	-	(50,494)	(50,494)	117	(50,377)
Other comprehensive income:									
Exchange differences of translation of foreign operations	-	-	-	16,143	-	-	16,143	173	16,316
Change in fair value of equity investments at fair value through other comprehensive income	-	-	236	-	-	-	236	-	236
Total comprehensive income/(loss) for the period ended 30 September 2020	-	-	236	16,143	-	(50,494)	(34,115)	290	(33,825)
At 30 September 2020	<u>104,647</u>	<u>1,977</u>	<u>3,429</u>	<u>(80,072)</u>	<u>403,684</u>	<u>62,666</u>	<u>496,331</u>	<u>6,945</u>	<u>503,276</u>

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

1. BASIS OF PREPARATION AND CHANGE IN ACCOUNTING POLICIES

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 unaudited condensed interim consolidated financial information should be read in conjunction with the 2020 annual financial statements, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

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 2020.

In the period, the Group has adopted all the new and amended Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 April 2020. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

A number of new or amended standards are effective from 1 April 2020 but they do not have a material effect on the Group’s unaudited condensed consolidated financial statements.

2. REVENUE AND SEGMENT INFORMATION

The chief operating decision-makers have been identified as the executive directors of the Company. The executive directors review the Group's financial information mainly from product and geographical perspectives. From a product perspective, the Group has two reportable segments namely watch retail and watch wholesale trading segments. From a geographical perspective, management mainly assesses the performance of watch retail operations in (i) Hong Kong, Macau and Mainland China and (ii) 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"). This measurement basis excludes net corporate expenses. Net corporate expenses mainly represent corporate staff costs and provision for senior management bonus.

For the six months ended 30 September 2020

	<u>Watch retail</u>			Total HK\$'000
	Hong Kong, Macau and Mainland China HK\$'000	Rest of Asia HK\$'000	Watch wholesale trading HK\$'000	
Revenues from contracts with customers within the scope of HKFRS15				
– Gross segment	120,902	89,807	159,402	370,111
– Inter-segment	–	–	(54,990)	(54,990)
	<u>120,902</u>	<u>89,807</u>	<u>104,412</u>	<u>315,121</u>
Sales to external customers	<u>120,902</u>	<u>89,807</u>	<u>104,412</u>	<u>315,121</u>
Timing of revenue recognition				
– At a point in time	<u>120,902</u>	<u>89,807</u>	<u>104,412</u>	<u>315,121</u>
Segment results	<u>(24,237)</u>	<u>(3,493)</u>	<u>21,147</u>	(6,583)
Net corporate expenses				(21,118)
Finance costs				(17,442)
Loss before tax				(45,143)
Income tax expense				(5,234)
Loss for the period				<u>(50,377)</u>

2. REVENUE AND SEGMENT INFORMATION (Continued)

As at 30 September 2020

	Watch retail			Total HK\$'000
	Hong Kong, Macau and Mainland China HK\$'000	Rest of Asia HK\$'000	Watch wholesale trading HK\$'000	
Segment assets	481,505	181,394	311,173	974,072
Unallocated assets				623,656
Total assets				1,597,728
Segment liabilities	178,257	82,205	98,400	358,862
Unallocated liabilities				735,590
Total liabilities				1,094,452

For the six months ended 30 September 2019

	Watch retail			Total HK\$'000
	Hong Kong, Macau and Mainland China HK\$'000	Rest of Asia HK\$'000	Watch wholesale trading HK\$'000	
Revenues from contracts with customers within the scope of HKFRS15				
– Gross segment	309,004	142,658	242,690	694,352
– Inter-segment	–	–	(100,666)	(100,666)
Sales to external customers	<u>309,004</u>	<u>142,658</u>	<u>142,024</u>	<u>593,686</u>
Timing of revenue recognition				
– At a point in time	<u>309,004</u>	<u>142,658</u>	<u>142,024</u>	<u>593,686</u>
Segment results	<u>(39,328)</u>	<u>(6,234)</u>	<u>19,255</u>	(26,307)
Net corporate expenses				(14,059)
Finance costs				(18,513)
Loss before tax				(58,879)
Income tax expense				(8,639)
Loss for the period				<u>(67,518)</u>

2. REVENUE AND SEGMENT INFORMATION (Continued)

As at 31 March 2020

	Watch retail		Watch wholesale trading HK\$'000	Total HK\$'000
	Hong Kong, Macau and Mainland China HK\$'000	Rest of Asia HK\$'000		
Segment assets	552,054	188,645	321,702	1,062,401
Unallocated assets				643,514
Total assets				<u>1,705,915</u>
Segment liabilities	250,165	86,061	74,657	410,883
Unallocated liabilities				757,931
Total liabilities				<u>1,168,814</u>

3. OTHER LOSSES

	Six months ended 30 September	
	2020 HK\$'000	2019 HK\$'000
(Loss)/gain on disposal of property, plant and equipment, net	(276)	72
Exchange loss, net	(7,013)	(6,921)
	<u>(7,289)</u>	<u>(6,849)</u>

4. OTHER INCOME

	Six months ended 30 September	
	2020 HK\$'000	2019 HK\$'000
Building management fee income	1,230	1,230
Rental income	4,410	5,863
Rent concession	20,480	–
Interest income	159	468
Government subsidies	22,905	–
Shared service income	10,200	13,200
Sundries	2,732	3,993
	<u>62,116</u>	<u>24,754</u>

5. LOSS BEFORE TAX

The Group's loss before tax has been derived after debiting or (crediting) the following items in the income statement.

	Six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
Depreciation of		
– Property, plant and equipment	11,720	17,384
– Right-of-use assets	52,703	99,683
Impairment loss of		
– Property, plant and equipment	2,001	6,529
– Right-of-use assets	20,112	–
Amortisation of intangible assets	–	1,160
Lease rentals in respect of land and buildings		
– Short-term and variable lease payments	5,348	29,054
– Rent concession	(20,480)	–
Provision for stocks	6,990	8,194
Donations	83	77
Employee benefit expenses	86,702	138,071

6. INCOME TAX EXPENSE

	Six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
Current income tax		
– Hong Kong profits tax	1,733	3,410
– Overseas profits tax	1,985	3,121
– (Over)/under provisions in respect of prior years	(107)	83
	3,611	6,614
Deferred income tax	1,623	2,025
	5,234	8,639

Hong Kong profits tax has been provided at the rate of 16.5% based on the estimated assessable profits for the six months ended 30 September 2020 (2019: 16.5%) less tax relief, if any. Taxation on overseas profits has been calculated on the estimated assessable profits for the six months ended 30 September 2020 at the rates of taxation prevailing in the jurisdictions in which the Group operates.

7. DIVIDEND

At a board meeting held on 26 November 2020, the directors did not propose the payment of an interim dividend for the six months ended 30 September 2020 (2019: nil).

8. LOSS PER SHARE

Basic

Basic loss per share is calculated by dividing the Group's 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 2020	2019
Weighted average number of ordinary shares in issue (thousands)	<u>1,046,474</u>	<u>1,046,474</u>
Loss attributable to equity holders of the Company (HK\$'000)	<u>(50,494)</u>	<u>(67,627)</u>
Basic loss per share (HK cents)	<u>(4.83)</u>	<u>(6.46)</u>

Diluted

Diluted loss per share for the six months ended 30 September 2020 and 30 September 2019 are the same as the basic loss per share amounts as there were no potentially dilutive ordinary share in issues during two periods.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2020, the Group acquired property, plant and equipment of approximately HK\$1,374,000 (2019: HK\$8,515,000).

10. RIGHT-OF-USE ASSETS

During the six months ended 30 September 2020, the Group acquired right-of-use assets of approximately HK\$17,121,000 (2019: HK\$38,470,000).

11. INVENTORIES

	30 September 2020 HK\$'000	31 March 2020 HK\$'000
Raw materials	186,740	183,722
Work-in-progress	10,519	14,850
Finished goods	<u>456,996</u>	<u>471,429</u>
	654,255	670,001
Less: provision for inventories	<u>(308,050)</u>	<u>(296,961)</u>
	<u>346,205</u>	<u>373,040</u>

12. TRADE AND OTHER RECEIVABLES

	30 September 2020 <i>HK\$'000</i>	31 March 2020 <i>HK\$'000</i>
Trade receivables, gross	88,549	80,107
Less: impairment loss	<u>(34)</u>	<u>(112)</u>
Trade receivables, net (<i>note</i>)	88,515	79,995
Other receivables	28,754	35,155
Deposits	73,810	78,912
Prepayments	<u>4,924</u>	<u>6,030</u>
	196,003	200,092
Less: non-current portion	<u>(27,344)</u>	<u>(36,638)</u>
Current portion	<u><u>168,659</u></u>	<u><u>163,454</u></u>
Trade receivables analysed by invoice date:		
0-60 days	45,694	28,692
Over 60 days	<u>42,855</u>	<u>51,415</u>
	<u><u>88,549</u></u>	<u><u>80,107</u></u>

Note:

The Group engages designated import and export agents for the importation of products from its subsidiaries in Hong Kong to the subsidiaries in Mainland China. The balances due from and due to the import and export agents are settled on a back-to-back basis, and such balances are repayable on demand. The Group's trade receivables and trade payables include balances due from and due to the import and export agents of HK\$35,235,000 as at 30 September 2020 (31 March 2020: HK\$34,596,000).

13. SHARE CAPITAL

<i>Note</i>	Number of shares of HK\$0.1 each	<i>HK\$'000</i>
Issued and fully paid:		
At 30 September 2019, 31 March 2020, 1 April 2020 and 30 September 2020	<u><u>1,046,474,025</u></u>	<u><u>104,647</u></u>

Note:

The Company and its subsidiaries did not set up or operate any share option scheme for the six months ended 30 September 2020 and the year ended 31 March 2020.

14. TRADE AND OTHER PAYABLES

	30 September 2020 HK\$'000	31 March 2020 HK\$'000
Trade payables	90,563	61,826
Contract liabilities	522	451
Other payables	53,471	45,741
Accruals	53,599	64,565
	<u>198,155</u>	<u>172,583</u>
Trade payables analysed by invoice date:		
0-60 days	54,627	22,192
Over 60 days	35,936	39,634
	<u>90,563</u>	<u>61,826</u>

15. BANK AND OTHER BORROWINGS

	30 September 2020 HK\$'000	31 March 2020 HK\$'000
Bank borrowings, secured (<i>note a</i>)	628,944	651,449
Current portion	(628,944)	(651,449)
Non-current portion	<u>–</u>	<u>–</u>

Note:

(a) The Group's bank borrowings are repayable as follows:

	30 September 2020 HK\$'000	31 March 2020 HK\$'000
Repayable on demand and within 1 year	628,944	651,449
	<u>628,944</u>	<u>651,449</u>

Included in bank borrowings as at 30 September 2020 are secured borrowings of HK\$628,944,000, which are secured by property, plant and equipment and investment properties of the Group. (31 March 2020: HK\$651,449,000, which are secured by property, plant and equipment, investment properties and pledged bank deposits of the Group.)

15. BANK AND OTHER BORROWINGS (Continued)

Note: (Continued)

(b) Movement in bank borrowings during the period is analysed as follows:

	Six months ended	
	30 September	
	2020	2019
	HK\$'000	HK\$'000
Opening balance	651,449	688,250
Drawdown of bank loans	42,742	54,090
Repayment of bank loans	(65,247)	(100,061)
	<u>628,944</u>	<u>642,279</u>

16. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

As at 30 September 2020, Yee Hing Company Limited held 855,200 shares of the Company through its subsidiary Active Lights Company Limited, 55% of the total issued ordinary shares of Yee Hing Company Limited is held by Klayze Holdings Limited, which is the trustee of a discretionary trust (the "Trust"). Mr. Joseph C.C. Wong is a beneficiary of the Trust, therefore deemed to be interested in 855,200 shares of the Company through the Trust's interest in Yee Hing Company Limited.

The following is a summary of the significant related party transactions carried out in the normal course of the Group's business:

(i) Provision of services to related companies

	Six months ended	
	30 September	
	2020	2019
	HK\$'000	HK\$'000
Building management service income (note a)	1,230	1,230
Shared service income (note b)	10,200	13,200
Rental income (note c)	2,213	3,192
Royalty income (note d)	109	458
Sundries	1,793	2,151
	<u>15,545</u>	<u>20,231</u>

16. RELATED PARTY TRANSACTIONS (Continued)

(i) Provision of services to related companies (Continued)

Note:

- (a) A wholly-owned subsidiary of the Group entered into a renewal agreement with Mengiwa Property Investment Limited ("MPIL"), a wholly-owned subsidiary of Yee Hing Company Limited, for the provision of the following services for the period from 1 April 2019 to 31 March 2022:
- (a) contract administration with respect to contracts entered into between MPIL and third parties from time to time;
 - (b) property agency liaison and tenancy management;
 - (c) management of the property manager of Stelux House; and
 - (d) other miscellaneous administrative services.

The fee for the provision of the above services was agreed at HK\$205,000 (2019: HK\$205,000) per calendar month during the agreement period.

- (b) The Group provided administrative services to a related company which has directors in common with the Group. Shared service income was charged at cost basis allocated based on the counterparties' usage of each type of service, taking into account factors such as headcount and the number of shops.
- (c) The Group provided leasing services to related parties which have directors in common with the Group. Rental income was charged to related parties based on the occupied area ratio times total actual costs incurred.
- (d) The Group provided licensing service to related parties which have directors in common with the Group. Royalty income was charged at 10% of the amount invoiced by suppliers or vendors of the counterparties.

(ii) Purchases of services from related companies

	Six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
Rental expenses (<i>note a</i>)	5,221	8,100
Lease management expenses (<i>note b</i>)	300	300
	<u>5,521</u>	<u>8,400</u>

16. RELATED PARTY TRANSACTIONS (Continued)

(ii) Purchases of services from related companies (Continued)

Note:

- (a) During the period, certain subsidiaries of the Group have entered into tenancy agreements with the following related parties for office premises, shops, warehouses, showroom and car-parking spaces:

	Rental expenses for the six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
MPIL	4,123	3,892
Other related parties	<u>1,098</u>	<u>4,208</u>
	<u>5,221</u>	<u>8,100</u>

- (b) A related company provided lease management services to the Group. The fee of the provision of such services was charged at pre-determined amount during the agreement period.

(iii) Balances with related parties

	30 September 2020	31 March 2020
	HK\$'000	HK\$'000
Trade and other receivables	<u>22,458</u>	<u>12,193</u>
Trade and other payables	<u>(4,154)</u>	<u>(3,611)</u>

(iv) Key management compensation

	Six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
Salaries and other short-term employee benefits	1,760	2,505
Other long-term benefits	<u>26</u>	<u>41</u>
	<u>1,786</u>	<u>2,546</u>

17. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 September 2020.

18. POST BALANCE SHEET EVENT

On 16 November 2020, a subsidiary of the Company (“Seller”) entered into a provisional agreement with an independent third party purchaser (“Purchaser”), pursuant to which the Seller has agreed to sell and the Purchaser has agreed to purchase the entire issued share capital of a subsidiary of the Seller at an aggregate consideration of HK\$108,000,000 (the “Disposal”). The Disposal is expected to be completed in January 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

- Group Turnover fell by 46.9% to HK\$315.1 million
- Loss Attributable to Equity Holders of HK\$50.5 million
- Group Inventory reduced by 7.2% to HK\$346.2 million vs that as at 31 March 2020

For the period under review, Group turnover decreased by 46.9% to HK\$315.1 million (1H 2019: HK\$593.7 million) as the COVID-19 pandemic exerted severe pressure on the turnover performance of the Group. In Q1, due to lock-downs and control movement orders, a sharp sales decline was seen but narrowed in Q2, especially at our Southeast Asia operations.

The Group reported a loss attributable to its equity holders of HK\$50.5 million (1H 2019: HK\$67.6 million). The Group continued with measures to further reduce operating costs:

- Selling expenses fell by 47.7%, mainly due to reduced shop rental and other shop overheads;
- Group general and administrative expenses fell by 27.6%

Various government subsidies of approximately HK\$23 million were received in our operating regions during the reporting period.

Due to the pandemic, measures were further strengthened to improve liquidity and reduce costs. Through strict inventory control and tightened stock procurement, Group inventory declined by 7.2% and 32.9% vs that as at the end of March 2020 and September 2019 respectively. Excluding the impact of a stock provision expense of HK\$95.4 million for slow-moving watch movements recorded in FY19/20, Group inventory would have declined by 17.7% vs that at 30 September 2019.

CAPEX sharply decreased by 83.5% against that for the same period in 2019. Shop numbers fell by 16.3% y-o-y in line with Group strategy to rationalise shop portfolio to improve shop productivity.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2020 (2019: Nil per ordinary share).

CITY CHAIN GROUP

- City Chain Group turnover down by 53.3%
- City Chain Group loss before interest and tax (LBIT) of HK\$27.7 million (1H 2019: HK\$45.6 million)

The City Chain Group operates around 160 stores in Hong Kong, Macau, Mainland China (the “Greater China”), Singapore, Thailand and Malaysia together with online stores for “City Chain” and “Solvil et Titus”.

Greater China

Turnover for CITY CHAIN operations in Greater China fell by 60.9% to HK\$120.9 million (1H 2019: HK\$309.0 million), with y-o-y sales decline in Q2 narrowing compared with Q1. A loss before interest and tax (LBIT) of HK\$24.2 million was recorded (1H 2019: HK\$39.3 million), after accounting for the impact of HKFRS 16 Leases relating to the right-of-use assets of certain retail stores which were fully impaired in FY19/20 and therefore no depreciation expense of the right-of-use assets was recorded in 1H 2020. The depreciation expense in 1H 2020 would have been HK\$45.3 million if these right-of-use assets were not impaired previously. An impairment loss of HK\$20.1 million being the right-of-use assets of the Group's retail stores in Greater China was recorded in 1H 2020. Following the streamlining of operations, Greater China saw operating expenses reduced by 44% during the period under review.

Our online business in Hong Kong delivered satisfactory results with turnover consistently improving and achieving profitable results in 1H 2020 whilst we also expanded our Mainland China e-commerce business on WeChat Mall.

Southeast Asia

Sales during the period under review were also impacted by COVID-19 due to lock downs and movement controls in Malaysia, Singapore and Thailand with sales declining y-o-y by 37% to HK\$89.8 million (1H 2019: HK\$142.7 million). However, y-o-y sales decline in Q2 was less compared to Q1. Together with effective cost containment, operating loss fell by 44% and a LBIT of HK\$3.5 million was posted (1H 2019: LBIT HK\$6.2 million).

SUPPLY CHAIN MANAGEMENT AND WHOLESALE TRADING

Turnover of the Group's watch supply chain and wholesale trading units fell by 26.5% to HK\$104.4 million (1H 2019: HK\$142.0 million) and with continued improvements in operating efficiencies, a profit on an exchange neutral basis of HK\$16.4 million (1H 2019: HK\$22.3 million) was reported.

As the sole distributor for the "SEIKO" and "GRAND SEIKO" brands of watches in Hong Kong, Macau, Singapore, Brunei and Malaysia, the Group's wholesale unit launched various marketing campaigns, which were well received, and with prompt service support promoted sell-through to retailers.

THE REST OF FY20/21

The disruptive and wide ranging effects of the pandemic continue to impact economies, lifestyles and working habits and despite promising vaccines in sight, economic activities are likely to remain fragile and the ranks of the unemployed are expected to grow. As these challenging conditions will prevail for the rest of FY20/21, measures adopted by the Group so far (as previously reported in the Group's Annual Report FY 19/20) to alleviate these pressures will continue under close monitoring, and will either be relaxed or strengthened depending on the changing external operating environment.

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.

Group gearing ratio was 93.0% (31 March 2020: 88.6%) with shareholders' funds standing at HK\$496.3 million (31 March 2020: HK\$530.4 million) and net debts of HK\$461.5 million (31 March 2020: HK\$469.8 million). The net debts are based on the bank borrowings of HK\$628.9 million (31 March 2020: HK\$651.4 million) less bank balance and cash of HK\$167.4 million of the Group (31 March 2020: HK\$181.6 million of which HK\$54.6 million were pledged). The bank borrowings comprised of HK\$288.5 million repayable within one year and HK\$340.4 million with scheduled repayment after one year but repayable on demand and were classified as current liabilities.

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 Macanese Pataca, the natural hedge mechanism was applied.

As at 30 September 2020, the Group's total equity funds amounted to HK\$503.3 million. The Group's cash inflow from its operations was HK\$103.8 million. The unutilized banking facilities as at 30 September 2020 was HK\$113 million.

As at 30 September 2020, the current assets and current liabilities were approximately HK\$682.3 million (31 March 2020: HK\$718.1 million) and HK\$983.5 million (31 March 2020: HK\$1,017.6 million), respectively. The current ratio was approximately 0.69 (0.71 as at 31 March 2020).

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

The Group does not engage in speculative derivative trading.

As at 30 September 2020, the Group does not have any significant contingent liabilities.

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

On 16 November 2020, a subsidiary of the Company ("Seller") entered into a provisional agreement with an independent third party purchaser ("Purchaser"), pursuant to which the Seller has agreed to sell and the Purchaser has agreed to purchase the entire issued share capital of a subsidiary of the Seller at an aggregate consideration of HK\$108,000,000 (the "Disposal").

Since 30 September 2020, other than the Disposal, there have been no other important events affecting the Group.

The interim results for the six months ended 30 September 2020 have been reviewed by the Audit Committee.

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 2020, the Group had 1,078 employees (at 30 September 2019: 1,288 employees).

DETAILS OF THE CHARGES ON GROUP ASSETS

As at 30 September 2020, certain property, plant and equipment and investment properties amounting to HK\$584.1 million (31 March 2020: property, plant and equipment, investment properties and bank deposit amounting to HK\$640.4 million) were pledged to secure banking facilities granted to the Group. Capital expenditures was under control and reduced to HK\$1.4 million (1H 2019: HK\$8.5 million).

As at 30 September 2020, the Company had given guarantees to various banks to secure general banking facilities granted to certain subsidiaries amounting to HK\$1,214 million.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES

Mr. Wallace Kwan Chi Kin is eligible to an annual bonus determinable under the terms of an executive bonus scheme with respect to the management of the Group for the financial year ending 31 March 2021 (“Executive Bonus Scheme”). Mr. Joseph C. C. Wong declined to participate in the Executive Bonus Scheme for the financial year ending 31 March 2021. As such, Mr. Wong is not eligible to any bonus for the management of the Group for the six months ended 30 September 2020. Provision for the executive bonus in respect of Mr. Kwan under the Executive Bonus Scheme for the six months ended 30 September 2020 amounted to HK\$440,000 (2019: HK\$450,000).

As at 30 September 2020, the interests and short positions of the directors, and the Company’s chief executive in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

(a) The Company-Ordinary shares

Long position in shares and underlying shares of the Company

Name of Director	Number of shares				Total	Approximate percentage of issued share capital
	Personal interest	Family interest	Corporate/ trust interest	Other interest		
Mr. Joseph C. C. Wong	548,474,814	11,000	855,200 <i>(Note 1)</i>	-	549,341,014	52.49

Note:

- (1) As at 30 September 2020, Yee Hing Company Limited (“Yee Hing”) held 855,200 shares of the Company through its subsidiary Active Lights Company Limited, 55% of the total issued ordinary shares of Yee Hing Company Limited is held by Klayze Holdings Limited, which is the trustee of a discretionary trust (the “Trust”). Mr. Joseph C.C. Wong is a beneficiary of the Trust and was therefore deemed to be interested in 855,200 shares of the Company through the Trust’s interest in Yee Hing Company Limited.

(b) Subsidiaries

	Number of shares				Approximate percentage of the total preference shares in issue as at 30 September 2020
	Personal interest	Family interest	Corporate interest	Total	
(i) City Chain (Thailand) Company Limited – Preference shares ⁽¹⁾					
Mr. Joseph C. C. Wong	200	–	208,800	209,000	99.52
(ii) Stelux Watch (Thailand) Company Limited – Preference shares ⁽²⁾					
Mr. Joseph C. C. Wong	600	–	–	600	16.67
(iii) Stelux (Thailand) Limited – Preference shares ⁽³⁾					
Mr. Joseph C. C. Wong	5,100	–	–	5,100	100.00

Note:

- (1) City Chain (Thailand) Company Limited is a subsidiary of the Company. Each preference share carries a right to vote and a right to an annual fixed dividend but not to any other profit sharing.
- (2) Stelux Watch (Thailand) Company Limited is a subsidiary of the Company. Each preference share carries a right to vote and a right to an annual fixed dividend but not to any other profit sharing.
- (3) Stelux (Thailand) Limited is a subsidiary of the Company. Mr. Joseph C. C. Wong is entitled to approximately 8.6% of the voting power of such subsidiary and an annual fixed dividend by virtue of the 5,100 preference shares held by him but not to any other profit sharing.

Save as disclosed above, no directors, chief executive of the Company or their associates have any interest or short positions in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

INTERESTS OF SHAREHOLDERS DISCLOSEABLE PURSUANT TO THE SFO

As at 30 September 2020, the following persons had interests in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long position in shares and underlying shares of the Company

Name of Shareholder	Number of shares				Total	Approximate percentage of issued share capital
	Beneficial interest	Family interest	Corporate/trust interest	Other interest		
Mr. Joseph C. C. Wong	548,474,814	11,000	855,200 <i>(Note 1)</i>	-	549,341,014	52.49

Note:

- (1) As at 30 September 2020, Yee Hing Company Limited (“Yee Hing”) held 855,200 shares of the Company through its subsidiary Active Lights Company Limited, 55% of the total issued ordinary shares of Yee Hing Company Limited is held by Klayze Holdings Limited, which is the trustee of a discretionary trust (the “Trust”). Mr. Joseph C.C. Wong is a beneficiary of the Trust and were therefore deemed to be interested in 855,200 shares of the Company through the Trust’s interest in Yee Hing Company Limited.

Save as disclosed above, the directors are not aware of any person (other than a director or chief executive of the Company or his/her respective associate(s)), who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 30 September 2020.

SUBSTANTIAL SHAREHOLDING IN OTHER MEMBERS OF THE GROUP

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

OTHER DIRECTORS’ INTERESTS

None of the directors or their respective associates had any interest in a business apart from the Company’s business which competes or is likely to compete, either directly or indirectly with, the Company’s business, or which would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder.

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 2020, the Company has complied with the code provisions of the 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 Board believes that with Mr. Joseph C.C. Wong acting as both Chairman and CEO ensures consistent leadership and further enables 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.

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. 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 24 November 2020, 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 2020 and discussed financial reporting matters including review of the Group’s results for the six months ended 30 September 2020 before they were presented to the board of directors for approval.

Remuneration Committee

On 26 November 2020, the Remuneration Committee by written resolution confirmed and approved the annual salaries and the Executive Bonus Scheme for its executive directors for the financial year ending 31 March 2021.

Nomination Committee and Corporate Governance Committee

On 18 June 2020, the Nomination Committee nominated Mr. Ho Chi Kin (also known as Jeff Ho) and Dr. Agnes Kwong Yi Hang, respectively for election and re-election as independent non-executive directors of the Company.

There are no updates on the 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 2020.

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

Hong Kong, 26 November 2020

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 (retired on 28 August 2020), Lawrence Wu Chi Man, Agnes Kwong Yi Hang and Ho Chi Kin (also known as Jeff Ho, appointed on 28 August 2020)

CORPORATE INFORMATION

Registered Office

Clarendon House, 2 Church Street
Hamilton, HM11, Bermuda

Principal Office

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

Principal Bankers

Hang Seng Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited

Auditors

RSM Hong Kong

Share Registrar

Conyers Corporate Services (Bermuda) Ltd.
Clarendon House, 2 Church Street
Hamilton HM11
Bermuda

Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor
Services Limited
Room 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

Audit Committee

Mr. Wu Chun Sang
(retired on 28 August 2020)
Mr. Ho Chi Kin (also known as Jeff Ho,
appointed on 28 August 2020)
(Chairman of Committee)
Professor Lawrence Wu Chi Man
Dr. Agnes Kwong Yi Hang

Remuneration Committee

Professor Lawrence Wu Chi Man
(Chairman of Committee)
Mr. Joseph C. C. Wong
Mr. Wu Chun Sang
(retired on 28 August 2020)
Dr. Agnes Kwong Yi Hang
Mr. Ho Chi Kin (also known as Jeff Ho,
appointed on 28 August 2020)

Nomination Committee

Mr. Joseph C. C. Wong
(Chairman of Committee)
Mr. Wu Chun Sang
(retired on 28 August 2020)
Professor Lawrence Wu Chi Man
Dr. Agnes Kwong Yi Hang
Mr. Ho Chi Kin (also known as Jeff Ho,
appointed on 28 August 2020)

Corporate Governance Committee

Mr. Wallace Kwan Chi Kin
(Chairman of Committee)
Mr. Wu Chun Sang
(retired on 28 August 2020)
Professor Lawrence Wu Chi Man
Dr. Agnes Kwong Yi Hang
Mr. Ho Chi Kin (also known as Jeff Ho,
appointed on 28 August 2020)

Company Secretary

Ms. Caroline Chong

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