

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 2021/2022

website: www.stelux.com

**INTERIM REPORT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2021**

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 2021. The condensed consolidated results of the Group for the six months ended 30 September 2021, the condensed consolidated balance sheet as at 30 September 2021, 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 2021, 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 2021**

		Unaudited Six months ended 30 September	
	<i>Note</i>	2021 HK\$'000	2020 HK\$'000
Revenues	2	306,229	315,121
Cost of sales		(164,755)	(168,004)
Gross profit		141,474	147,117
Other losses	3	(1,004)	(7,289)
Other income	4	23,061	62,116
Selling expenses		(105,509)	(119,962)
General and administrative expenses		(81,940)	(79,071)
Other operating expenses		(14,783)	(30,612)
Finance costs		(9,737)	(17,442)
Loss before tax	5	(48,438)	(45,143)
Income tax expense	6	(851)	(5,234)
Loss for the period		<u>(49,289)</u>	<u>(50,377)</u>
Attributable to:			
Equity holders of the Company		(49,337)	(50,494)
Non-controlling interests		48	117
Loss for the period		<u>(49,289)</u>	<u>(50,377)</u>
		<i>HK cents</i>	<i>HK cents</i>
Loss per share	8		
– Basic and diluted		<u>(4.71)</u>	<u>(4.83)</u>

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2021**

	Unaudited	
	Six months ended	
	30 September	
	2021	2020
	HK\$'000	HK\$'000
Loss for the period	<u>(49,289)</u>	<u>(50,377)</u>
Other comprehensive (loss)/income:		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences of translation of foreign operations	<u>(3,626)</u>	<u>16,316</u>
	<u>(3,626)</u>	<u>16,316</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>(20)</u>	<u>236</u>
	<u>(20)</u>	<u>236</u>
Other comprehensive (loss)/income for the period	<u>(3,646)</u>	<u>16,552</u>
Total comprehensive loss for the period	<u><u>(52,935)</u></u>	<u><u>(33,825)</u></u>
Attributable to:		
Equity holders of the Company	<u>(52,475)</u>	<u>(34,115)</u>
Non-controlling interests	<u>(460)</u>	<u>290</u>
Total comprehensive loss for the period	<u><u>(52,935)</u></u>	<u><u>(33,825)</u></u>

**CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 SEPTEMBER 2021**

	<i>Note</i>	Unaudited 30 September 2021 HK\$'000	31 March 2021 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	254,889	265,476
Investment properties		296,700	296,700
Right-of-use assets	10	110,548	123,990
Intangible assets		53,436	53,459
Equity investments at fair value through other comprehensive income		1,854	1,874
Deposits and prepayments	12	16,935	20,643
Deferred tax assets		12,823	16,071
Total non-current assets		<u>747,185</u>	<u>778,213</u>
Current assets			
Inventories	11	281,066	267,303
Trade and other receivables	12	128,479	141,978
Cash and cash equivalents		121,206	170,344
Total current assets		<u>530,751</u>	<u>579,625</u>
Total assets		<u>1,277,936</u>	<u>1,357,838</u>
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	13	104,647	104,647
Reserves		330,398	382,873
Shareholders' funds		435,045	487,520
Non-controlling interests		6,617	7,077
Total equity		<u>441,662</u>	<u>494,597</u>
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		25,634	27,760
Lease liabilities		63,218	70,148
Total non-current liabilities		<u>88,852</u>	<u>97,908</u>
Current liabilities			
Trade and other payables	14	166,680	148,724
Income tax payable		17,371	17,441
Bank borrowings	15	492,296	512,797
Lease liabilities		71,075	86,371
Total current liabilities		<u>747,422</u>	<u>765,333</u>
Total liabilities		<u>836,274</u>	<u>863,241</u>
Total equity and liabilities		<u>1,277,936</u>	<u>1,357,838</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2021**

	Unaudited	
	Six months ended	
	30 September	
	2021	2020
	HK\$'000	HK\$'000
Cash flows from operating activities		
Cash generated from operations	42,551	122,996
Interest paid	(9,737)	(17,442)
Hong Kong profits tax paid	(168)	–
Overseas profits tax paid	(2,446)	(2,568)
Overseas profits tax refunded	2,393	837
	<hr/>	<hr/>
Net cash generated from operating activities	32,593	103,823
	<hr/>	<hr/>
Cash flows from investing activities		
Purchase of property, plant and equipment	(5,138)	(1,374)
Proceeds from sale of property, plant and equipment	2	92
Interest received	104	159
	<hr/>	<hr/>
Net cash used in investing activities	(5,032)	(1,123)
	<hr/>	<hr/>
Cash flows from financing activities		
Drawdown of bank loans	121,615	42,742
Repayment of bank loans	(142,116)	(65,247)
Principal portion of lease payments	(54,037)	(97,370)
Decrease in pledged bank deposits	–	54,579
	<hr/>	<hr/>
Net cash used in financing activities	(74,538)	(65,296)
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	(46,977)	37,404
Cash and cash equivalents at 1 April	170,344	127,016
Effect of foreign exchange rate changes	(2,161)	3,026
	<hr/>	<hr/>
Cash and cash equivalents at 30 September	121,206	167,446
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balance of cash and cash equivalents:		
Bank balances and cash	121,206	167,446
	<hr/> <hr/>	<hr/> <hr/>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2021**

	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 (accumulated loss) HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 April 2020	104,647	1,977	3,193	(96,215)	403,684	113,160	530,446	6,655	537,101
(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>
At 1 April 2021	<u>104,647</u>	<u>1,977</u>	<u>(377)</u>	<u>(53,681)</u>	<u>403,684</u>	<u>31,270</u>	<u>487,520</u>	<u>7,077</u>	<u>494,597</u>
(Loss)/profit for the period	-	-	-	-	-	(49,337)	(49,337)	48	(49,289)
Other comprehensive loss:									
Exchange differences of translation of foreign operations	-	-	-	(3,118)	-	-	(3,118)	(508)	(3,626)
Change in fair value of equity investments at fair value through other comprehensive income	-	-	(20)	-	-	-	(20)	-	(20)
Total comprehensive loss for the period ended 30 September 2021	-	-	(20)	(3,118)	-	(49,337)	(52,475)	(460)	(52,935)
At 30 September 2021	<u>104,647</u>	<u>1,977</u>	<u>(397)</u>	<u>(56,799)</u>	<u>403,684</u>	<u>(18,067)</u>	<u>435,045</u>	<u>6,617</u>	<u>441,662</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 2021 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 2021.

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 2021. 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 2021 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 business nature and geographical perspectives. From a perspective on business nature, 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 from watch retail segment and watch wholesale trading segment. 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 2021

	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 HKFRS 15				
– Gross segment	122,229	71,229	180,090	373,548
– Inter-segment	–	–	(67,319)	(67,319)
Sales to external customers	<u>122,229</u>	<u>71,229</u>	<u>112,771</u>	<u>306,229</u>
Timing of revenue recognition				
– At a point in time	<u>122,229</u>	<u>71,229</u>	<u>112,771</u>	<u>306,229</u>
Segment results	<u>(27,984)</u>	<u>(11,302)</u>	<u>19,079</u>	(20,207)
Net corporate expenses				(18,494)
Finance costs				(9,737)
Loss before tax				(48,438)
Income tax expenses				(851)
Loss for the period				<u>(49,289)</u>

2. REVENUE AND SEGMENT INFORMATION (Continued)

As at 30 September 2021

	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	407,537	143,375	265,903	816,815
Unallocated assets				461,121
Total assets				1,277,936
Segment liabilities	100,296	60,826	88,534	249,656
Unallocated liabilities				586,618
Total liabilities				836,274

For the six months ended 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	
Revenues from contracts with customers within the scope of HKFRS 15				
– Gross segment	120,902	89,807	159,402	370,111
– Inter-segment	–	–	(54,990)	(54,990)
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 31 March 2021

	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	418,242	153,402	257,349	828,993
Unallocated assets				<u>528,845</u>
Total assets				<u><u>1,357,838</u></u>
Segment liabilities	111,019	71,537	80,054	262,610
Unallocated liabilities				<u>600,631</u>
Total liabilities				<u><u>863,241</u></u>

3. OTHER LOSSES

	Six months ended 30 September	
	2021 HK\$'000	2020 HK\$'000
Loss on disposal of property, plant and equipment, net	(123)	(276)
Exchange loss, net	<u>(881)</u>	<u>(7,013)</u>
	<u><u>(1,004)</u></u>	<u><u>(7,289)</u></u>

4. OTHER INCOME

	Six months ended 30 September	
	2021 HK\$'000	2020 HK\$'000
Building management fee income	1,230	1,230
Rental income	2,348	4,410
Rent concession	5,258	20,480
Interest income	104	159
Government subsidies	4,621	22,905
Shared service income	7,200	10,200
Sundries	<u>2,300</u>	<u>2,732</u>
	<u><u>23,061</u></u>	<u><u>62,116</u></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	
	2021	2020
	HK\$'000	HK\$'000
Depreciation of		
– Property, plant and equipment	13,774	11,720
– Right-of-use assets	35,575	52,703
Impairment loss of		
– Property, plant and equipment	633	2,001
– Right-of-use assets	10,235	20,112
Lease rentals in respect of land and buildings		
– Short-term and variable lease payments	7,376	5,348
– Rent concession	(5,258)	(20,480)
Provision for inventories	1,371	6,990
Donations	88	83
Employee benefit expenses	88,805	86,702

6. INCOME TAX EXPENSE

	Six months ended	
	30 September	
	2021	2020
	HK\$'000	HK\$'000
Current income tax		
– Hong Kong profits tax	1,297	1,733
– Overseas profits tax	1,522	1,985
– Over provisions in respect of prior years	(2,067)	(107)
	752	3,611
Deferred income tax	99	1,623
	851	5,234

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 2021 (2020: 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 2021 at the rates of taxation prevailing in the jurisdictions in which the Group operates.

7. DIVIDEND

At a board meeting held on 25 November 2021, the directors did not propose the payment of an interim dividend for the six months ended 30 September 2021 (2020: 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	
	2021	2020
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>(49,337)</u>	<u>(50,494)</u>
Basic loss per share (HK cents)	<u>(4.71)</u>	<u>(4.83)</u>

Diluted

Diluted loss per share for the six months ended 30 September 2021 and 30 September 2020 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 2021, the Group acquired property, plant and equipment of approximately HK\$5,138,000 (2020: HK\$1,374,000).

10. RIGHT-OF-USE ASSETS

During the six months ended 30 September 2021, the Group acquired right-of-use assets of approximately HK\$32,016,000 (2020: HK\$17,121,000).

11. INVENTORIES

	30 September 2021	31 March 2021
	HK\$'000	HK\$'000
Raw materials	184,832	185,934
Work-in-progress	11,355	9,571
Finished goods	<u>411,637</u>	<u>396,232</u>
	607,824	591,737
Less: provision for inventories	<u>(326,758)</u>	<u>(324,434)</u>
	<u>281,066</u>	<u>267,303</u>

12. TRADE AND OTHER RECEIVABLES

	30 September 2021 HK\$'000	31 March 2021 HK\$'000
Trade receivables, gross	78,475	79,424
Less: impairment loss	<u>(22)</u>	<u>(20)</u>
Trade receivables, net (<i>note</i>)	78,453	79,404
Other receivables	3,208	12,603
Deposits	59,367	65,817
Prepayments	<u>4,386</u>	<u>4,797</u>
	145,414	162,621
Less: non-current portion	<u>(16,935)</u>	<u>(20,643)</u>
Current portion	<u>128,479</u>	<u>141,978</u>
Trade receivables analysed by invoice date:		
0-60 days	34,647	35,947
Over 60 days	<u>43,828</u>	<u>43,477</u>
	<u>78,475</u>	<u>79,424</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\$36,020,000 as at 30 September 2021 (31 March 2021: HK\$33,955,000).

13. SHARE CAPITAL

<i>Note</i>	Number of shares of HK\$0.1 each	HK\$'000
Issued and fully paid:		
At 30 September 2020, 31 March 2021, 1 April 2021 and 30 September 2021	<u>1,046,474,025</u>	<u>104,647</u>

Note:

The Company and its subsidiaries did not set up or operate any share option scheme for the six months ended 30 September 2021 and the year ended 31 March 2021.

14. TRADE AND OTHER PAYABLES

	30 September 2021 HK\$'000	31 March 2021 HK\$'000
Trade payables	79,848	60,185
Contract liabilities	2,161	2,164
Other payables	37,785	27,603
Accruals	46,886	58,772
	<u>166,680</u>	<u>148,724</u>
Trade payables analysed by invoice date:		
0-60 days	42,677	24,027
Over 60 days	37,171	36,158
	<u>79,848</u>	<u>60,185</u>

15. BANK BORROWINGS

	30 September 2021 HK\$'000	31 March 2021 HK\$'000
Bank borrowings, secured (<i>note a</i>)	<u>492,296</u>	512,797
Current portion	<u>(492,296)</u>	(512,797)
Non-current portion	<u>–</u>	<u>–</u>

Note:

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

	30 September 2021 HK\$'000	31 March 2021 HK\$'000
Repayable on demand and within 1 year	<u>492,296</u>	512,797
	<u>492,296</u>	<u>512,797</u>

Included in bank borrowings as at 30 September 2021 are secured borrowings of HK\$492,296,000, which are secured by property, plant and equipment and investment properties of the Group (31 March 2021: HK\$512,797,000).

15. BANK BORROWINGS (Continued)

Note: (Continued)

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

	Six months ended	
	30 September	
	2021	2020
	HK\$'000	HK\$'000
Opening balance	512,797	651,449
Drawdown of bank loans	121,615	42,742
Repayment of bank loans	(142,116)	(65,247)
	<u>492,296</u>	<u>628,944</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 2021, 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	
	2021	2020
	HK\$'000	HK\$'000
Building management service income (note a)	1,230	1,230
Shared service income (note b)	7,200	10,200
Rental income (note c)	2,085	2,213
Royalty income (note d)	40	109
Sundries	1,847	1,793
	<u>12,402</u>	<u>15,545</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 (2020: 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 service 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	
	2021	2020
	HK\$'000	HK\$'000
Rental expenses (<i>note a</i>)	5,363	5,221
Lease management expenses (<i>note b</i>)	210	300
	<u>5,573</u>	<u>5,521</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	
	2021	2020
	HK\$'000	HK\$'000
MPIL	4,210	4,123
Other related parties	1,153	1,098
	<u>5,363</u>	<u>5,221</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 2021	31 March 2021
	HK\$'000	HK\$'000
Trade and other receivables	<u>4,216</u>	<u>10,412</u>
Trade and other payables	<u>(9,478)</u>	<u>(273)</u>

(iv) Key management compensation

	Six months ended 30 September	
	2021	2020
	HK\$'000	HK\$'000
Salaries and other short-term employee benefits	2,573	1,760
Other long-term benefits	29	26
	<u>2,602</u>	<u>1,786</u>

17. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 September 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

- Group Turnover slightly fell by 2.8% to HK\$306.2 million
- Loss Attributable to Equity Holders of the Company of HK\$49.3 million

During six months ended 30 September 2021 (“1H 2021” or “Period”), Group turnover decreased by 2.8% to HK\$306.2 million (six months ended 30 September 2020 (“1H 2020”): HK\$315.1 million), representing the cumulative outcome of improved sales in Hong Kong and Macau, while the sales in Southeast Asia regions and mainland China decreased. Such decreases were mainly due to social distancing measures, travel restrictions and nationwide lockdowns. The Group have seen moderate recovery in sales in Southeast Asia regions since September 2021, and the retail sales in Hong Kong have recorded a growth of around 21% y-o-y in October 2021.

The Group reported a loss attributable to equity holders of HK\$49.3 million in 1H 2021(1H 2020: HK\$50.5 million). Various government subsidies of approximately HK\$4.6 million (1H 2020: HK\$22.9 million) were received in our operating regions during the Period.

The Group has maintained strict discipline in containing operating costs with selling expenses fell by 12% y-o-y.

CAPEX has been well contained at HK\$5.1 million during the Period. Shop rationalisation strategy had been in place with the closing down of underperforming shops making the numbers fell by 10% y-o-y optimizing existing shops productivity and cost structure.

Group Inventory stood at HK\$281.1 million as at 30 September 2021, increased by 5.2% comparing to that at 31 March 2021 of HK\$267.3 million. During 1H 2021, national travel restrictions and mandatory quarantines have been implemented by the governments of some of our operating regions, thus impacting our inventory turnover in certain regions. Group inventory would have declined by 13.2% comparing to that as at September 2020 of HK\$346.2 million if excluding the impact of stock provision expense recorded in the year ended 31 March 2021 of HK\$19.3 million for slow-moving watch movements. Continual inventory control and discipline in stock procurement measures are in place and proper product-mix of inventory are closely monitored.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2021 (2020: Nil per ordinary share).

CITY CHAIN GROUP

- City Chain Group turnover down by 8.2%
- City Chain Group loss before interest and tax (LBIT) of HK\$39.3 million

The City Chain Group operates around 147 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 in 1H 2021 was HK\$122.2 million (1H 2020: HK\$120.9 million), and a loss before interest and tax (LBIT) of HK\$28.0 million was recorded (1H 2020: HK\$24.2 million), which have taken into account of the following factors:

- As the right-of-use assets under HKFRS 16 Leases related certain retail stores were fully impaired in previous financial years, no depreciation expense of these right-of-use assets was recorded in 1H 2021. The depreciation expense in 1H 2021 would be HK\$19.7 million (1H 2020: HK\$45.3 million) if these right-of-use assets were not impaired previously;
- An impairment loss of HK\$10.2 million being the right-of-use assets of the retail stores recorded (1H 2020: HK\$20.1 million);
- No government subsidy income was received in Greater China during the Period (1H 2020: HK\$11.5 million income).

If the above factors are not taken into account, LBIT would narrow to HK\$37.5 million (1H 2020: HK\$60.9 million).

During 1H 2021, retail sales in Hong Kong recorded a double-digit growth driven by the momentum brought by the Hong Kong Government's consumption voucher scheme with same store sales growth of about 30% during the Period. Our retail operation in Macau also recorded a profit in 1H 2021 despite there were travel restrictions in August 2021 which halting tourist arrivals. However, retail sales performance in mainland China has been affected by travel restrictions in certain months during the Period.

On a positive note, our e-commerce business in Hong Kong has delivered satisfactory results with strong turnover growth of 35% y-o-y and achieved profitable results in 1H 2021. The Group have also continued to invest and expand our mainland China e-commerce business to enhance our market threshold.

Southeast Asia

Our operations in Southeast Asia were substantially impacted by COVID-19 during the Period. Various extents of travel restrictions were implemented within the regions since May 2021 which dented traffic in shopping malls. As a result, sales declined by 20.7% y-o-y to HK\$71.2 million (1H 2020: HK\$89.8 million) and LBIT of HK\$11.3 million (1H 2020: LBIT HK\$3.5 million) was reported.

Amid the intermittent lockdowns and travel restrictions situation, our teams have devoted committed efforts in our e-commerce platforms to deploy attractive products for local consumers. E-commerce business in Southeast Asia regions developed satisfactorily during 1H 2021 with sales growth by approximately 180% y-o-y. Moreover, consumers are set to unleash their purchasing power after prolonged period of lockdowns. Sales have gradually recovered after relaxation of government restrictions in early September. The sales of October 2021 reported a mild y-o-y growth, especially strong recovery in Malaysia. Our teams shall continue to negotiate for rental concessions and carry out other cost containment measures in order to mitigate the operating loss.

SUPPLY CHAIN MANAGEMENT AND WHOLESALE TRADING

Turnover of the Group's watch supply chain and wholesale trading units have increased by 8.0% to HK\$112.8 million (1H 2020: HK\$104.4 million) and continued to improve operational efficiencies, a profit on an exchange neutral basis of HK\$19.2 million (1H 2020: HK\$16.4 million) was reported.

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

GROUP OUTLOOK

Despite there is a sign of gradual recovery of retail performance in Hong Kong and Southeast Asia in recent months, the Group maintain the prudent view on the short run outlook given the uncertainties in post-pandemic development and magnitude of economic recovery in our operating regions, and remain judicious in taking various measures in containing operating costs and capital expenditures, while endeavouring to achieve sustainable business development. Given the satisfactory performance in our e-commerce development in various regions, the Group will continue to invest in this growing segment to fully realize the sharing of resources to integrate online and offline transaction channels.

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 85.3% (31 March 2021: 70.2%) with shareholders' funds standing at HK\$435.0 million (31 March 2021: HK\$487.5 million) and net debts of HK\$371.1 million (31 March 2021: HK\$342.5 million). The net debts are based on the bank borrowings of HK\$492.3 million (31 March 2021: HK\$512.8 million) less bank balance and cash of HK\$121.2 million of the Group (31 March 2021: HK\$170.3 million). The bank borrowings comprised of HK\$141.4 million repayable within one year and HK\$350.9 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 2021, the Group's total equity funds amounted to HK\$441.7 million. The Group's cash inflow from its operations was HK\$32.6 million. The unutilized banking facilities as at 30 September 2021 was HK\$82 million.

As at 30 September 2021, the current assets and current liabilities were approximately HK\$530.8 million (31 March 2021: HK\$579.6 million) and HK\$747.4 million (31 March 2021: HK\$765.3 million), respectively. The current ratio was approximately 0.71 (0.76 as at 31 March 2021).

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

The Group does not engage in speculative derivative trading.

As at 30 September 2021, the Group did not have any significant contingent liabilities.

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

Since 30 September 2021, there have been no important events affecting the Group.

The interim results for the six months ended 30 September 2021 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 at 30 September 2021, the Group had 968 employees (30 September 2020: 1,078 employees).

DETAILS OF THE CHARGES ON GROUP ASSETS

As at 30 September 2021, certain property, plant and equipment and investment properties amounting to HK\$508.2 million (31 March 2021: HK\$513.9 million) were pledged to secure banking facilities granted to the Group.

As at 30 September 2021, 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 2022 (“Executive Bonus Scheme”). Mr. Joseph C. C. Wong declined to participate in the Executive Bonus Scheme for the financial year ending 31 March 2022. As such, Mr. Wong is not eligible to any bonus for the management of the Group for the six months ended 30 September 2021. Provision for the executive bonus in respect of Mr. Kwan under the Executive Bonus Scheme for the six months ended 30 September 2021 amounted to HK\$1,120,000 (2020: HK\$440,000).

As at 30 September 2021, 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 2021, 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 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 – Preference shares

	Number of shares				Total	Approximate percentage of the total preference shares in issue as at 30 September 2021
	Personal interest	Family interest	Corporate interest	Other interest		
(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 (if any) 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 (if any) 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 (if any) 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 or not such interest or right has been granted or exercised.

INTERESTS OF SHAREHOLDERS DISCLOSEABLE PURSUANT TO THE SFO

As at 30 September 2021, the following person 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
	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 2021, 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 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 2021.

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 period.

CORPORATE GOVERNANCE

During the six months ended 30 September 2021, 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 of the Code, 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 23 November 2021, 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 2021 and discussed financial reporting matters including review of the Group's results for the six months ended 30 September 2021 before they were presented to the board of directors for approval.

Remuneration Committee

On 23 November 2021, the Remuneration Committee by written resolution confirmed the annual salaries and the Executive Bonus Scheme for its executive directors for the financial year ending 31 March 2022.

Nomination Committee and Corporate Governance Committee

On 24 June 2021, the Nomination Committee nominated Mr. Ricky Lai Kai Ming for election as an independent non-executive director of the Company and Mr. Wallace Kwan Chi Kin for re-election as an executive director of the Company.

On 12 October 2021, the Nomination Committee nominated Mr. Suriyan Kanjanapas (also known as Suriyan Joshua Kanjanapas) for election as non-executive director 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 2021.

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

Hong Kong, 25 November 2021

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*)

Non-Executive director:

Suriyan Kanjanapas (also known as Suriyan Joshua Kanjanapas)

Independent Non-Executive directors:

Agnes Kwong Yi Hang, Jeff Ho Chi Kin and Ricky Lai Kai Ming

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. Jeff Ho Chi Kin
(*Chairman of Committee*)
Dr. Agnes Kwong Yi Hang
Professor Lawrence Wu Chi Man
(retired on 31 August 2021)
Mr. Ricky Lai Kai Ming
(appointed on 31 August 2021)
Mr. Suriyan Kanjanapas
(aka Suriyan Joshua Kanjanapas)
(appointed on 20 October 2021)

Remuneration Committee

Professor Lawrence Wu Chi Man
(*Chairman of Committee*)
(retired on 31 August 2021)
Mr. Ricky Lai Kai Ming
(*Chairman of Committee*)
(appointed on 31 August 2021)
Dr. Agnes Kwong Yi Hang
Mr. Chumphol Kanjanapas
(aka Joseph C. C. Wong)
Mr. Jeff Ho Chi Kin

Nomination Committee

Mr. Chumphol Kanjanapas
(aka Joseph C. C. Wong)
(*Chairman of Committee*)
Dr. Agnes Kwong Yi Hang
Mr. Jeff Ho Chi Kin
Professor Lawrence Wu Chi Man
(retired on 31 August 2021)
Mr. Ricky Lai Kai Ming
(appointed on 31 August 2021)
Mr. Suriyan Kanjanapas
(aka Suriyan Joshua Kanjanapas)
(appointed on 20 October 2021)

Corporate Governance Committee

Mr. Wallace Kwan Chi Kin
(*Chairman of Committee*)
Dr. Agnes Kwong Yi Hang
Mr. Jeff Ho Chi Kin
Professor Lawrence Wu Chi Man
(retired on 31 August 2021)
Mr. Ricky Lai Kai Ming
(appointed on 31 August 2021)

Company Secretary

Ms. Caroline Chong
(retired on 1 November 2021)
Ms. Kelly Liao Ching Mei
(appointed on 1 November 2021)

Email Contacts

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Shareholder's Enquiries: ir@stelux.com