

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 2022/2023

website: www.stelux.com

**INTERIM REPORT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2022**

The Board of directors (the “Board”) 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 2022. The condensed consolidated results of the Group for the six months ended 30 September 2022, the condensed consolidated balance sheet as at 30 September 2022, 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 2022, 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 2022**

		Unaudited Six months ended 30 September	
	<i>Note</i>	2022 HK\$'000	2021 HK\$'000
Revenues	2	408,349	306,229
Cost of sales		(226,900)	(164,755)
		181,449	141,474
Gross profit			
Other gains/(losses)	3	73,599	(1,004)
Other income	4	20,276	23,061
Selling expenses		(116,026)	(105,509)
General and administrative expenses		(85,401)	(81,940)
Other operating expenses		(5,678)	(14,783)
Finance costs		(8,670)	(9,737)
		59,549	(48,438)
Profit/(loss) before tax	5		
Income tax expense	6	(6,163)	(851)
		53,386	(49,289)
Profit/(loss) for the period		53,386	(49,289)
Attributable to:			
Equity holders of the Company		53,209	(49,337)
Non-controlling interests		177	48
		53,386	(49,289)
Profit/(loss) for the period		53,386	(49,289)
		HK cents	HK cents
Earnings/(loss) per share	8		
– Basic and diluted		5.08	(4.71)

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2022**

	Unaudited	
	Six months ended	
	30 September	
	2022	2021
	HK\$'000	HK\$'000
Profit/(loss) for the period	<u>53,386</u>	<u>(49,289)</u>
Other comprehensive loss:		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences of translation of foreign operations	<u>(20,533)</u>	<u>(3,626)</u>
	<u>(20,533)</u>	<u>(3,626)</u>
<i>Item that will not be reclassified to profit or loss:</i>		
Change in fair value of equity investment at fair value through other comprehensive income	<u>(66)</u>	<u>(20)</u>
	<u>(66)</u>	<u>(20)</u>
Other comprehensive loss for the period	<u>(20,599)</u>	<u>(3,646)</u>
Total comprehensive income/(loss) for the period	<u><u>32,787</u></u>	<u><u>(52,935)</u></u>
Attributable to:		
Equity holders of the Company	<u>33,648</u>	<u>(52,475)</u>
Non-controlling interests	<u>(861)</u>	<u>(460)</u>
Total comprehensive income/(loss) for the period	<u><u>32,787</u></u>	<u><u>(52,935)</u></u>

**CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 SEPTEMBER 2022**

	<i>Note</i>	Unaudited 30 September 2022 HK\$'000	31 March 2022 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	186,729	196,748
Investment properties		283,100	283,100
Right-of-use assets	10	69,877	77,593
Intangible assets		49,688	51,342
Equity investment at fair value through other comprehensive income		1,527	1,593
Deposits and prepayments	12	16,599	14,757
Deferred tax assets		4,494	7,046
Total non-current assets		<u>612,014</u>	<u>632,179</u>
Current assets			
Inventories	11	236,797	260,679
Trade and other receivables	12	129,561	135,740
Cash and cash equivalents		121,207	112,121
Assets classified as held for sale	13	–	41,311
Total current assets		<u>487,565</u>	<u>549,851</u>
Total assets		<u>1,099,579</u>	<u>1,182,030</u>
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	14	104,647	104,647
Reserves		307,147	273,499
Shareholders' funds		411,794	378,146
Non-controlling interests		5,741	6,602
Total equity		<u>417,535</u>	<u>384,748</u>
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		25,364	26,690
Lease liabilities		32,303	35,690
Total non-current liabilities		<u>57,667</u>	<u>62,380</u>
Current liabilities			
Trade and other payables	15	190,458	180,634
Income tax payable		28,350	25,054
Bank borrowings	16	360,217	473,876
Lease liabilities		45,352	55,338
Total current liabilities		<u>624,377</u>	<u>734,902</u>
Total liabilities		<u>682,044</u>	<u>797,282</u>
Total equity and liabilities		<u>1,099,579</u>	<u>1,182,030</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2022**

	Unaudited	
	Six months ended	
	30 September	
	2022	2021
	HK\$'000	HK\$'000
Cash flows from operating activities		
Cash generated from operations	54,272	42,551
Interest paid	(5,740)	(4,499)
Interest on lease liabilities	(2,930)	(5,238)
Hong Kong profits tax paid	–	(168)
Overseas profits tax paid	(2,321)	(2,446)
Overseas profits tax refunded	218	2,393
	<hr/>	<hr/>
Net cash generated from operating activities	43,499	32,593
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,946)	(5,138)
Proceeds from sale of property, plant and equipment	45	2
Proceeds from sale of assets classified as held for sale	120,000	–
Interest received	140	104
	<hr/>	<hr/>
Net cash generated from/(used in) investing activities	117,239	(5,032)
Cash flows from financing activities		
Drawdown of bank loans	65,115	121,615
Repayment of bank loans	(178,774)	(142,116)
Principal portion of lease payments	(35,342)	(54,037)
	<hr/>	<hr/>
Net cash used in financing activities	(149,001)	(74,538)
Net increase/(decrease) in cash and cash equivalents	11,737	(46,977)
Cash and cash equivalents at 1 April	112,121	170,344
Effect of foreign exchange rate changes	(2,651)	(2,161)
	<hr/>	<hr/>
Cash and cash equivalents at 30 September	121,207	121,206
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balance of cash and cash equivalents:		
Bank balances and cash	121,207	121,206
	<hr/> <hr/>	<hr/> <hr/>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2022**

	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 2021	104,647	1,977	(377)	(53,681)	403,684	31,270	487,520	7,077	494,597
(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 investment 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>
At 1 April 2022	<u>104,647</u>	<u>1,977</u>	<u>(658)</u>	<u>(56,058)</u>	<u>403,684</u>	<u>(75,446)</u>	<u>378,146</u>	<u>6,602</u>	<u>384,748</u>
Profit for the period	-	-	-	-	-	53,209	53,209	177	53,386
Other comprehensive loss:									
Exchange differences of translation of foreign operations	-	-	-	(19,495)	-	-	(19,495)	(1,038)	(20,533)
Change in fair value of equity investment at fair value through other comprehensive income	-	-	(66)	-	-	-	(66)	-	(66)
Total comprehensive (loss)/income for the period ended 30 September 2022	-	-	(66)	(19,495)	-	53,209	33,648	(861)	32,787
At 30 September 2022	<u>104,647</u>	<u>1,977</u>	<u>(724)</u>	<u>(75,553)</u>	<u>403,684</u>	<u>(22,237)</u>	<u>411,794</u>	<u>5,741</u>	<u>417,535</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 2022 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 2022.

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 2022. 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 2022 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 unallocated income and net corporate expenses. Unallocated income represents gain on disposal of a property. Net corporate expenses mainly represent corporate staff costs and provision for senior management bonus.

For the six months ended 30 September 2022

	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	132,560	127,928	245,832	506,320
– Inter-segment	–	–	(97,971)	(97,971)
Sales to external customers	<u>132,560</u>	<u>127,928</u>	<u>147,861</u>	<u>408,349</u>
Timing of revenue recognition				
– At a point in time	<u>132,560</u>	<u>127,928</u>	<u>147,861</u>	<u>408,349</u>
Segment results	<u>(23,496)</u>	<u>3,172</u>	<u>25,282</u>	4,958
Unallocated income				78,689
Net corporate expenses				(15,428)
Finance costs				(8,670)
Profit before tax				59,549
Income tax expense				(6,163)
Profit for the period				<u>53,386</u>

2. REVENUE AND SEGMENT INFORMATION (Continued)

As at 30 September 2022

	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	343,427	133,031	248,177	724,635
Unallocated assets				374,944
Total assets				1,099,579
Segment liabilities	(74,399)	(53,197)	(108,715)	(236,311)
Unallocated liabilities				(445,733)
Total liabilities				(682,044)

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 expense				(851)
Loss for the period				<u>(49,289)</u>

2. REVENUE AND SEGMENT INFORMATION (Continued)

As at 31 March 2022

	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	375,063	138,205	254,438	767,706
Unallocated assets				414,324
Total assets				<u>1,182,030</u>
Segment liabilities	(88,008)	(53,216)	(83,857)	(225,081)
Unallocated liabilities				(572,201)
Total liabilities				<u>(797,282)</u>

3. OTHER GAINS/(LOSSES)

	Six months ended 30 September	
	2022 HK\$'000	2021 HK\$'000
Gain/(loss) on disposal of property, plant and equipment, net	39	(123)
Gain on disposal of assets classified as held for sale	78,689	–
Exchange loss, net	(5,174)	(881)
Gain on termination of leases	45	–
	<u>73,599</u>	<u>(1,004)</u>

4. OTHER INCOME

	Six months ended 30 September	
	2022 HK\$'000	2021 HK\$'000
Building management fee income	1,290	1,230
Rental income	2,392	2,348
Rent concession	1,129	5,258
Interest income	140	104
Government subsidies	6,379	4,621
Shared service income	7,200	7,200
Sundries	1,746	2,300
	<u>20,276</u>	<u>23,061</u>

5. PROFIT/(LOSS) BEFORE TAX

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

	Six months ended 30 September	
	2022	2021
	HK\$'000	HK\$'000
Depreciation of		
– Property, plant and equipment	9,185	13,774
– Right-of-use assets	28,622	35,575
Impairment loss of		
– Property, plant and equipment	253	633
– Right-of-use assets	1,215	10,235
Lease rentals in respect of land and buildings		
– Short-term and variable lease payments	16,536	7,376
– Rent concession	(1,129)	(5,258)
(Write back of provision)/provision for inventories	(11,603)	1,371
Inventories written off	13,170	97
Donations	20	88
Employee benefit expenses	95,111	88,805

6. INCOME TAX EXPENSE

	Six months ended 30 September	
	2022	2021
	HK\$'000	HK\$'000
Current income tax		
– Hong Kong profits tax	3,173	1,297
– Overseas profits tax	4,585	1,522
– Over provisions in respect of prior years	(40)	(2,067)
	7,718	752
Deferred income tax	(1,555)	99
	6,163	851

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 2022 (2021: 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 2022 at the rates of taxation prevailing in the jurisdictions in which the Group operates.

7. DIVIDEND

At a board meeting held on 24 November 2022, the directors did not propose the payment of an interim dividend for the six months ended 30 September 2022 (2021: nil).

8. EARNINGS/(LOSS) PER SHARE

Basic

Basic earnings/(loss) per share is calculated by dividing the Group's profit/(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	
	2022	2021
Weighted average number of ordinary shares in issue (thousands)	<u>1,046,474</u>	<u>1,046,474</u>
Profit/(loss) attributable to equity holders of the Company (HK\$'000)	<u>53,209</u>	<u>(49,337)</u>
Basic earnings/(loss) per share (HK cents)	<u>5.08</u>	<u>(4.71)</u>

Diluted

Diluted earnings/(loss) per share for the six months ended 30 September 2022 and 30 September 2021 are the same as the basic earnings/(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 2022, the Group acquired property, plant and equipment of approximately HK\$2.946 million (2021: HK\$5.138 million).

10. RIGHT-OF-USE ASSETS

During the six months ended 30 September 2022, the Group acquired right-of-use assets of approximately HK\$26.568 million (2021: HK\$32.016 million).

11. INVENTORIES

	30 September 2022 HK\$'000	31 March 2022 HK\$'000
Raw materials	171,731	187,109
Work-in-progress	11,336	11,683
Finished goods	<u>368,533</u>	<u>395,154</u>
	551,600	593,946
Less: provision for inventories	<u>(314,803)</u>	<u>(333,267)</u>
	<u>236,797</u>	<u>260,679</u>

12. TRADE AND OTHER RECEIVABLES

	30 September 2022 HK\$'000	31 March 2022 HK\$'000
Trade receivables, gross	85,976	83,678
Less: impairment loss	<u>(20)</u>	<u>(23)</u>
Trade receivables, net (<i>note</i>)	85,956	83,655
Other receivables	5,561	7,298
Deposits	44,930	54,321
Prepayments	<u>9,713</u>	<u>5,223</u>
	146,160	150,497
Less: non-current portion	<u>(16,599)</u>	<u>(14,757)</u>
Current portion	<u>129,561</u>	<u>135,740</u>
Trade receivables analysed by invoice date:		
0-60 days	47,633	39,081
Over 60 days	<u>38,343</u>	<u>44,597</u>
	<u>85,976</u>	<u>83,678</u>

Note:

The Group engages designated import and export agents for the importation of products from the 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\$31.127 million as at 30 September 2022 (31 March 2022: HK\$33.253 million).

13. ASSETS CLASSIFIED AS HELD FOR SALE

	30 September 2022 HK\$'000	31 March 2022 HK\$'000
Land and buildings transfer from property, plant and equipment	<u>-</u>	<u>41,311</u>

On 28 January 2022, the Group entered into a provisional agreement with an independent third party seeking to dispose one of its properties and anticipated that the disposal would be completed by August 2022. Further on 10 February 2022, a sale and purchase agreement were executed, both parties have reached a consensus on the selling price of HK\$120 million.

The disposal was completed in August 2022 and an unaudited gain on disposal of HK\$78.7 million was recognised in the six months ended 30 September 2022.

14. SHARE CAPITAL

	<i>Note</i>	Number of shares of HK\$0.1 each	<i>HK\$'000</i>
Issued and fully paid:			
At 30 September 2021, 31 March 2022, 1 April 2022 and 30 September 2022		<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 2022 and the year ended 31 March 2022.

15. TRADE AND OTHER PAYABLES

	30 September 2022 <i>HK\$'000</i>	31 March 2022 <i>HK\$'000</i>
Trade payables	95,109	71,388
Contract liabilities	3,687	1,280
Other payables	38,107	60,431
Accruals	53,555	47,535
	<u>190,458</u>	<u>180,634</u>
Trade payables analysed by invoice date:		
0-60 days	62,547	34,348
Over 60 days	32,562	37,040
	<u>95,109</u>	<u>71,388</u>

16. BANK BORROWINGS

	<i>Note</i>	30 September 2022 <i>HK\$'000</i>	31 March 2022 <i>HK\$'000</i>
Bank borrowings, secured	(a)	<u>360,217</u>	<u>473,876</u>

Note:

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

	30 September 2022 <i>HK\$'000</i>	31 March 2022 <i>HK\$'000</i>
Repayable on demand and within 1 year	<u>360,217</u>	<u>473,876</u>

Included in bank borrowings as at 30 September 2022 are secured borrowings of HK\$360.217 million, which are secured by property, plant and equipment and investment properties of the Group (31 March 2022: HK\$473.876 million, which are secured by property, plant and equipment, investment properties and assets classified as held for sale of the Group).

16. BANK BORROWINGS (Continued)

Note: (Continued)

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

	Six months ended 30 September	
	2022	2021
	HK\$'000	HK\$'000
Opening balance	473,876	512,797
Drawdown of bank loans	65,115	121,615
Repayment of bank loans	(178,774)	(142,116)
	<u>360,217</u>	<u>492,296</u>

17. 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 2022, 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	
	2022	2021
	HK\$'000	HK\$'000
Building management service income (note a)	1,290	1,230
Shared service income (note b)	7,200	7,200
Rental income (note c)	1,802	2,085
Royalty income (noted d)	303	40
Sundries	1,663	1,847
	<u>12,258</u>	<u>12,402</u>

17. 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 2022 to 31 March 2025 (2021: 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\$215,000 (2021: 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	
	2022	2021
	HK\$'000	HK\$'000
Rental expense (note a)	4,586	5,363
Lease management expense (note b)	210	210
	<u>4,796</u>	<u>5,573</u>

17. 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	
	2022	2021
	HK\$'000	HK\$'000
MPIL	3,872	4,210
Other related parties	714	1,153
	<u>4,586</u>	<u>5,363</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) Balance with related parties

	30 September 2022	31 March 2022
	HK\$'000	HK\$'000
Trade and other receivables	<u>5,172</u>	<u>4,850</u>
Trade and other payables	<u>(13,803)</u>	<u>(19,267)</u>

(iv) Key management compensation

	Six months ended 30 September	
	2022	2021
	HK\$'000	HK\$'000
Salaries and other short-term employee benefits	2,652	2,573
Contribution to retirement benefit scheme	53	29
	<u>2,705</u>	<u>2,602</u>

18. CONTINGENT LIABILITIES

As at 30 September 2022, a subsidiary of the Company had contingent liabilities in respect of bank guarantees given to landlords in lieu of rental deposits for certain retails shops and suppliers amounting to approximately HK\$5.967 million (31 March 2022: HK\$5.296 million).

MANAGEMENT DISCUSSION AND ANALYSIS

- Group Turnover increased by 33.3% to HK\$408.3 million
- Profit Attributable to Equity Holders of the Company of HK\$53.2 million

During six months ended 30 September 2022 (“1H 2022” or “Period”), Group turnover increased by 33.3% to HK\$408.3 million (six months ended 30 September 2021 (“1H 2021”): HK\$306.2 million).

The Group reported a profit attributable to equity holders of HK\$53.2 million in 1H 2022 which included the unaudited gain on disposal of a property in Hong Kong (“Disposal gain”) of HK\$78.7 million. If the Disposal gain was excluded, the Group would have reported a loss of HK\$25.5 million in 1H 2022, representing an improvement of 48% compared with a loss in 1H 2021 of HK\$49.3 million. This was mainly contributed to the recovery of sales in Hong Kong and Southeast Asia region together with uplift in operational efficiency. The momentum of sale increment continued in October 2022 with a y-o-y growth (on an exchange neutral basis) of approximately 23%.

Various government subsidies of approximately HK\$6.4 million (1H 2021: HK\$4.6 million) were received in our operating regions during the Period.

In 1H 2022, the Group continued to implement inventory control measures and Group inventory at 30 September 2022 was HK\$236.8 million, a decline of 9.2% or HK\$23.9 million compared with the balance at 31 March 2022 of HK\$260.7 million. Stock turnover days improved from 258 days at 31 March 2022 to 201 days at 30 September 2022. Continual inventory control and prudent stock procurement are in place to strengthen balance sheet management.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2022 (2021: Nil per ordinary share).

CITY CHAIN GROUP

- City Chain Group turnover increased by 34.6% year-on-year
- City Chain Group loss before interest and tax (“LBIT”) of HK\$20.3 million (1H 2021: HK\$39.3 million)

The City Chain Group operates around 115 stores in Hong Kong, Macau, Mainland China (collectively, the “Greater China”), Singapore, Thailand and Malaysia together with online stores of “City Chain” and “Solvil et Titus”.

Greater China

Turnover for CITY CHAIN operations in Greater China was HK\$132.6 million (1H 2021: HK\$122.2 million), representing a y-o-y growth of 8.5%. A loss before interest and tax (“LBIT”) of HK\$23.5 million (1H 2021: HK\$28.0 million), which took into account of the following factors:

- As the right-of-use assets under HKFRS 16 leases related to certain retail stores were fully impaired in previous financial years, no depreciation expense of these right-of-use assets was recorded in both 1H 2022 and 1H 2021. The depreciation expense in 1H 2022 would be HK\$6.7 million (1H 2021: HK\$19.7 million) if these right-of-use assets were not impaired previously;
- An impairment loss of HK\$1.2 million being the right-of-use assets of the retail stores was recorded (1H 2021: HK\$10.2 million);
- Government subsidy income of HK\$4.1 million was received in Greater China during the Period (1H 2021: nil).

If the above factors were not taken into account, LBIT would be HK\$33.1 million in 1H 2022, which was decreased by 11.7% from HK\$37.5 million in 1H 2021.

During 1H 2022, retail sales in Hong Kong recorded a growth of 25% y-o-y during the Period and operating loss has been further reduced. However, due to movement control in different intervals during 1H 2022, retail sales in Macau and Mainland China was impacted which hampered the operating performance of Greater China.

Our e-commerce business in Hong Kong continued to achieve profitable results in 1H 2022. The Group also continued to invest and expand our Mainland China e-commerce business to enhance our market threshold.

Southeast Asia

With reopening of economies and gradual recovery in consumer sentiment, our Southeast Asian operations recorded turnover growth of 79.6% to HK\$127.9 million (1H 2021: HK\$71.2 million) and posted earnings before interest and tax (“EBIT”) of HK\$3.2 million (1H 2021: LBIT of HK\$11.3 million). Singapore and Malaysian operations posted an EBIT of HK\$7.1 million (1H 2021: LBIT of HK\$5.4 million), while Thailand operations recorded a reduced loss of HK\$3.9 million (1H 2021: LBIT of HK\$5.9 million). Our teams continues to fine tune store portfolio and carry out various cost containment measures in order to drive better profitability.

With continual investments in our e-commerce platforms to deploy welcoming products for consumers, our e-commerce business in Southeast Asia regions continued to develop satisfactorily during 1H 2022 with sales growth by approximately 42% y-o-y.

SUPPLY CHAIN MANAGEMENT AND WHOLESALE TRADING

Turnover of the Group's watch supply chain and wholesale trading units increased by 31.1% to HK\$147.9 million (1H 2021: HK\$112.8 million) and a profit on an exchange neutral basis of HK\$31.6 million (1H 2021: HK\$19.2 million) was reported.

As mentioned in the Group's Voluntary Announcement of Business Update published on 1 August 2022, the modification of wholesale distributorship arrangements of "GRAND SEIKO" and "CREDOR" watches in Singapore, Brunei and Malaysia was effective from 3 October 2022. The Group will continue to:

- (a) distribute as sole wholesale distributor for "GRAND SEIKO" and "CREDOR" watches in Hong Kong and Macau, and "SEIKO" watches in Hong Kong, Macau, Singapore, Brunei and Malaysia;
- (b) act as retailer for "GRAND SEIKO", "SEIKO" and "CREDOR" watches in Hong Kong, Macau, Singapore and Malaysia.

Our wholesale trading unit will continue to launch various marketing campaigns with quality service support to increase sell-through 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 maintains the prudent view on the short run outlook given the uncertainties in post-pandemic development and economic situation in our operating regions. The Group also remains judicious in taking various measures in containing operating costs and capital expenditures to enhance shop productivity and corporate financial performance, while endeavours to achieve sustainable business development. Given the uplift of our e-commerce development in various regions, the Group will continue to invest in this growing segment to realize the potential of integration of online and offline 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 58.0% (31 March 2022: 95.7%) with shareholders' funds standing at HK\$411.8 million (31 March 2022: HK\$378.1 million) and net debts of HK\$239.0 million (31 March 2022: HK\$361.8 million). The net debts are based on the bank borrowings of HK\$360.2 million (31 March 2022: HK\$473.9 million) less bank balance and cash of HK\$121.2 million of the Group (31 March 2022: HK\$112.1 million). The bank borrowings comprised of HK\$109.4 million repayable within one year and HK\$250.8 million with scheduled repayment after one year but repayable on demand and were classified as current

liabilities. As at 30 September 2022, the Group's total equity funds amounted to HK\$417.5 million. The Group's cash inflow from its operations was HK\$54.3 million. The unutilized banking facilities as at 30 September 2022 was HK\$62.0 million.

On 28 January 2022, a subsidiary of the Group entered into a provisional agreement with an independent third party for the disposal ("Disposal") of a property in Hong Kong at a consideration of HK\$120 million. The Disposal was completed in August 2022 ("Completion") and an unaudited gain on disposal of HK\$78.7 million was recognised in the six months ended 30 September 2022. Majority of the sales proceeds were used to repay bank loans of the Group.

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 assets of the Group are in Hong Kong dollars, the natural hedge mechanism is applied.

As at 30 September 2022, the current assets and current liabilities were approximately HK\$487.6 million (31 March 2022: HK\$549.9 million) and HK\$624.4 million (31 March 2022: HK\$734.9 million), respectively. The current ratio was approximately 0.78 (0.75 as at 31 March 2022).

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

The Group does not engage in speculative derivative trading.

As at 30 September 2022, a subsidiary of the Company had contingent liabilities in respect of bank guarantees given to landlords in lieu of rental deposits for certain retail shops and suppliers amounting to approximately HK\$5.967 million (31 March 2022: HK\$5.296 million).

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

Since 30 September 2022, there have been no important events affecting the Group.

The interim results for the six months ended 30 September 2022 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.

DETAILS OF THE CHARGES ON GROUP ASSETS

As at 30 September 2022, certain property, plant and equipment and investment properties amounting to HK\$433.7 million (31 March 2022: HK\$479.8 million of certain property, plant and equipment, investment properties and assets classified as held for sale) were pledged to secure banking facilities granted to the Group.

As at 30 September 2022, the Company had given guarantees to various banks to secure general banking facilities granted to certain subsidiaries amounting to HK\$999 million.

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 regions or countries where the Group operates. As at 30 September 2022, the Group had approximately 846 employees (30 September 2021: 968 employees).

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 2023 ("Executive Bonus Scheme"). Mr. Joseph C. C. Wong declined to participate in the Executive Bonus Scheme for the financial year ending 31 March 2023. As such, Mr. Wong is not eligible to any bonus for the management of the Group for the six months ended 30 September 2022. Provision for the executive bonus in respect of Mr. Kwan under the Executive Bonus Scheme for the six months ended 30 September 2022 amounted to HK\$1,120,000 (2021: HK\$1,120,000).

As at 30 September 2022, 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 (Note 1)	-	549,341,014	52.49

Note:

- (1) As at 30 September 2022, 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 2022
	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
(iv) City Chain (Siam) Limited - Preference shares ⁽⁴⁾						
Mr. Joseph C. C. Wong	255,000	-	-	-	255,000	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.
- (4) City Chain (Siam) Limited is a subsidiary of the Company. Preference shares shall be entitled to ten shares per one vote and shall have a right to receive dividends same as common shares.

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 2022, 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 2022, 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 2022.

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 2022, 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 22 November 2022, 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 2022 and discussed financial reporting matters including review of the Group's results for the six months ended 30 September 2022 before they were presented to the board of directors for approval.

Remuneration Committee

On 23 June 2022, the Remuneration Committee determined the annual salaries for its executive directors for the financial year ending 31 March 2023.

Nomination Committee and Corporate Governance Committee

On 8 July 2022, the Nomination Committee nominated Ms. Honnus Cheung Ho Ling for election as an independent non-executive director of the Company and Mr. Jeff Ho Chi Kin for re-election as an independent 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 2022.

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

Hong Kong, 24 November 2022

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:

Jeff Ho Chi Kin, Ricky Lai Kai Ming and Honnus Cheung Ho Ling

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
(retired on 16 August 2022)
Mr. Ricky Lai Kai Ming
Mr. Suriyan Kanjanapas
(aka Suriyan Joshua Kanjanapas)
Ms. Honnus Cheung Ho Ling
(appointed on 16 August 2022)

Remuneration Committee

Mr. Ricky Lai Kai Ming
(Chairman of Committee)
Dr. Agnes Kwong Yi Hang
(retired on 16 August 2022)
Mr. Chumphol Kanjanapas
(aka Joseph C. C. Wong)
Mr. Jeff Ho Chi Kin
Ms. Honnus Cheung Ho Ling
(appointed on 16 August 2022)

Nomination Committee

Mr. Chumphol Kanjanapas
(aka Joseph C. C. Wong)
(Chairman of Committee)
Dr. Agnes Kwong Yi Hang
(retired on 16 August 2022)
Mr. Jeff Ho Chi Kin
Mr. Ricky Lai Kai Ming
Mr. Suriyan Kanjanapas
(aka Suriyan Joshua Kanjanapas)
Ms. Honnus Cheung Ho Ling
(appointed on 16 August 2022)

Corporate Governance Committee

Mr. Wallace Kwan Chi Kin
(Chairman of Committee)
Dr. Agnes Kwong Yi Hang
(retired on 16 August 2022)
Mr. Jeff Ho Chi Kin
Mr. Ricky Lai Kai Ming
Ms. Honnus Cheung Ho Ling
(appointed on 16 August 2022)

Company Secretary

Ms. Kelly Liao Ching Mei

Email Contacts

Investor Relations: ir@stelux.com

Shareholder's Enquiries: ir@stelux.com