

STELUX Holdings International Limited

Incorporated in Bermuda with limited liability

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

Stock Code: 84

INTERIM REPORT 2010/2011

**INTERIM REPORT
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2010**

The directors of Stelux Holdings International Limited (the “Company”) are pleased to report the interim results and financial information of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30th September 2010. The condensed consolidated results of the Group for the six months ended 30th September 2010, the condensed consolidated balance sheet as at 30th September 2010, the condensed consolidated cash flow statement and the condensed consolidated statement of changes in equity of the Group for the six months ended 30th September 2010, all of which are unaudited, along with the relevant explanatory notes, are set out below.

**CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2010**

		Unaudited Six months ended 30th September	
		2010	2009
	<i>Note</i>	HK\$'000	HK\$'000
Revenues	2,3	1,261,361	1,111,844
Cost of sales		(499,471)	(456,941)
		<hr/>	<hr/>
Gross profit		761,890	654,903
Other gains, net	4	6,598	2,176
Other income	5	7,593	7,168
Selling expenses		(562,401)	(516,862)
General and administrative expenses		(123,883)	(110,021)
Other operating expenses		(9,340)	(11,297)
		<hr/>	<hr/>
Operating profit		80,457	26,067
Finance costs		(4,692)	(6,542)
		<hr/>	<hr/>
Profit before income tax	6	75,765	19,525
Income tax expense	7	(24,865)	(14,645)
		<hr/>	<hr/>
Profit for the period		50,900	4,880
		<hr/>	<hr/>
Attributable to:			
Equity holders of the Company		50,562	4,644
Non-controlling interests		338	236
		<hr/>	<hr/>
		50,900	4,880
		<hr/>	<hr/>
Dividends	8	11,416	9,513
		<hr/>	<hr/>
		HK cents	HK cents
Earnings per share for profit attributable to the equity holders of the Company	9		
– Basic and diluted		5.31	0.49
		<hr/>	<hr/>

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2010**

	Unaudited	
	Six months ended	
	30th September	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	<u>50,900</u>	<u>4,880</u>
Other comprehensive income:		
Exchange differences	<u>32,859</u>	<u>37,164</u>
Other comprehensive income for the period, net of tax	<u>32,859</u>	<u>37,164</u>
Total comprehensive income for the period	<u><u>83,759</u></u>	<u><u>42,044</u></u>
Attributable to:		
Equity holders of the Company	<u>83,103</u>	41,577
Non-controlling interests	<u>656</u>	<u>467</u>
Total comprehensive income for the period	<u><u>83,759</u></u>	<u><u>42,044</u></u>

**CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30TH SEPTEMBER 2010**

	<i>Note</i>	Unaudited 30th September 2010 HK\$'000	(Restated) 31st March 2010 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	<i>10</i>	319,580	310,464
Investment properties	<i>10</i>	38,600	41,200
Prepayment of lease premium	<i>10</i>	73,410	54,215
Intangible assets	<i>10</i>	25,318	24,178
Deferred tax assets		48,744	46,244
Available-for-sale financial assets		12,587	12,587
		518,239	488,888
Current assets			
Stocks		779,424	728,385
Debtors and prepayments	<i>11</i>	327,976	323,542
Bank balances and cash		236,773	213,184
		1,344,173	1,265,111
Total assets		1,862,412	1,753,999
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	<i>12</i>	95,134	95,134
Reserves		835,728	752,625
Shareholders' funds		930,862	847,759
Non-controlling interests		5,448	4,968
Total equity		936,310	852,727
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		2,624	2,483
Borrowings	<i>14</i>	129,435	127,409
		132,059	129,892
Current liabilities			
Creditors and accruals	<i>13</i>	430,896	354,714
Income tax payable		14,934	11,741
Borrowings	<i>14</i>	348,213	404,925
		794,043	771,380
Total liabilities		926,102	901,272
Total equity and liabilities		1,862,412	1,753,999
Net current assets		550,130	493,731
Total assets less current liabilities		1,068,369	982,619

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2010**

	Unaudited	
	Six months ended	
	30th September	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash from operating activities	137,047	49,930
Net cash used in investing activities	(59,366)	(30,884)
Net cash (used in)/from financing activities	(57,768)	26,414
	<hr/>	<hr/>
Net increase in cash and cash equivalents	19,913	45,460
Cash and cash equivalents at 1st April	213,184	117,386
Effect of foreign exchange rate changes	3,676	9,362
	<hr/>	<hr/>
Cash and cash equivalents at 30th September	<u>236,773</u>	<u>172,208</u>
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	<u>236,773</u>	<u>172,208</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2010**

	Unaudited								
	Attributable to equity holders of the Company							Non- controlling interest	Total equity
	Share capital	Share premium	Revaluation reserve	Exchange reserve	Retained earnings	Total	Total equity		
<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	
At 1st April 2009	95,134	1,977	13,824	(29,006)	707,444	789,373	4,253	793,626	
Profit for the period	-	-	-	-	4,644	4,644	236	4,880	
Other comprehensive income:									
Exchange differences	-	-	-	36,933	-	36,933	231	37,164	
Total comprehensive income for the period ended 30th September 2009	-	-	-	36,933	4,644	41,577	467	42,044	
Dividends paid	-	-	-	-	-	-	(158)	(158)	
At 30th September 2009	<u>95,134</u>	<u>1,977</u>	<u>13,824</u>	<u>7,927</u>	<u>712,088</u>	<u>830,950</u>	<u>4,562</u>	<u>835,512</u>	
At 1st April 2010	<u>95,134</u>	<u>1,977</u>	<u>8,288</u>	<u>29,312</u>	<u>713,048</u>	<u>847,759</u>	<u>4,968</u>	<u>852,727</u>	
Profit for the period	-	-	-	-	50,562	50,562	338	50,900	
Other comprehensive income:									
Exchange differences	-	-	-	32,541	-	32,541	318	32,859	
Total comprehensive income for the period ended 30th September 2010	-	-	-	32,541	50,562	83,103	656	83,759	
Dividends paid	-	-	-	-	-	-	(176)	(176)	
At 30th September 2010	<u>95,134</u>	<u>1,977</u>	<u>8,288</u>	<u>61,853</u>	<u>763,610</u>	<u>930,862</u>	<u>5,448</u>	<u>936,310</u>	

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

1. BASIS OF PREPARATION

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 condensed interim consolidated financial information should be read in conjunction with the 2010 annual financial statements.

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 31st March 2010.

The following amendments to standards are mandatory for the first time for the financial year beginning 1st April 2010 :

- HKAS 17 (amendment), ‘Leases’, removes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under “leasehold land and land use rights”, and amortised over the lease term.

HKAS 17 (amendment) has been applied retrospectively for annual periods beginning 1st April 2010 in accordance with the effective date and transitional provisions of the amendment. The Group has reassessed the classification of unexpired leasehold land and land use rights as at 1st April 2010 on the basis of information existing at the inception of those leases, and recognized the leasehold land in Hong Kong as finance lease retrospectively. As a result of the reassessment, the Group has reclassified certain leasehold land and land use rights from operating lease to finance lease.

The accounting for land interest classified as finance lease is as below:

- If the property interest is held for own use, that land interest is accounted for as property, plant and equipment and is depreciated from the land interest available for its intended use over the shorter of the useful life of the asset and the lease term.
- If the property interest is held to earn rentals and/or for capital appreciation, that land interest is accounted for as investment property and carried at fair value.

The effect of the adoption of this amendment is as follows:

	30th September 2010 HK\$'000	31st March 2010 HK\$'000
Increase in property, plant and equipment	123,633	125,988
Decrease in prepayment of lease premium	<u>(123,633)</u>	<u>(125,988)</u>

1. BASIS OF PREPARATION (Continued)

Certain new standards, amendments to standards and interpretations of Hong Kong Financial Reporting Standards (“HKFRS”) issued by HKICPA have been published and are effective for accounting periods beginning on or after 1st April 2010. Those that are relevant to the Group’s operations are as follows:

HKAS 27 (amendment) — Consolidated and separate financial statements
 HKAS 39 (amendment) — Eligible hedged items
 HKFRS 3 (revised) — Business combinations
 HKFRS 5 (amendment) — Non-current assets held for sale and discontinued operations
 Second improvements project to HKFRS (2009)

The adoption of the above revised accounting standard has no significant impact on the Group’s interim results and financial position.

The Group has not early adopted any new standards, amendments to standards and interpretations of HKFRS which have been issued but not yet effective for the financial year ending 31st March 2011.

2. SEGMENT INFORMATION

The chief operating decision-makers have been identified as the executive directors. The executive directors review the Group’s financial information mainly from product and geographical perspective. From a geographical perspective, management assesses the performance of watch and optical operations in Hong Kong, Macau and Mainland China and rest of Asia.

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.

	Six months ended 30th September 2010						
	Watch retail		Optical retail		Watch wholesale trading	Property	Group Total
	Hong Kong, Macau and Mainland China	Rest of Asia	Hong Kong, Macau and Mainland China	Rest of Asia			
<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	
Revenues							
Gross segment	416,149	216,985	328,917	129,758	271,600	6,736	1,370,145
Inter-segment	–	–	–	–	(102,825)	(5,959)	(108,784)
	<u>416,149</u>	<u>216,985</u>	<u>328,917</u>	<u>129,758</u>	<u>168,775</u>	<u>777</u>	<u>1,261,361</u>
Segment results	<u>26,780</u>	<u>8,545</u>	<u>20,335</u>	<u>10,520</u>	<u>38,196</u>	<u>(1,613)</u>	102,763
Unallocated income							56
Net corporate expenses							(22,362)
Operating profit							80,457
Finance costs							(4,692)
Profit before income tax							75,765
Income tax expense							(24,865)
Profit after income tax							<u>50,900</u>

2. SEGMENT INFORMATION (Continued)

	Six months ended 30th September 2009						
	Watch retail		Optical retail		Watch wholesale trading	Property	Group Total
	Hong Kong, Macau and Mainland China	Rest of Asia	Hong Kong, Macau and Mainland China	Rest of Asia			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Revenues							
Gross segment	360,353	213,590	287,045	114,349	235,988	6,875	1,218,200
Inter-segment	–	–	–	–	(100,201)	(6,155)	(106,356)
	<u>360,353</u>	<u>213,590</u>	<u>287,045</u>	<u>114,349</u>	<u>135,787</u>	<u>720</u>	<u>1,111,844</u>
Segment results	<u>(5,642)</u>	<u>20,463</u>	<u>3,044</u>	<u>5,763</u>	<u>21,892</u>	<u>(3,419)</u>	<u>42,101</u>
Unallocated income							50
Net corporate expenses							(16,084)
Operating profit							26,067
Finance costs							(6,542)
Profit before income tax							19,525
Income tax expense							(14,645)
Profit after income tax							<u>4,880</u>

3. REVENUES

	Six months ended 30th September	
	2010 HK\$'000	2009 HK\$'000
Turnover		
Sales of goods	<u>1,260,584</u>	1,111,124
Gross rental income	<u>777</u>	<u>720</u>
	<u>1,261,361</u>	<u>1,111,844</u>

4. OTHER GAINS, NET

	Six months ended 30th September	
	2010 HK\$'000	2009 HK\$'000
Gain on disposal of property, plant and equipment, net	<u>60</u>	60
Gain on disposal of an investment property	<u>1,296</u>	–
Exchange gain, net	<u>5,242</u>	<u>2,116</u>
	<u>6,598</u>	<u>2,176</u>

5. OTHER INCOME

	Six months ended	
	30th September	
	2010	2009
	HK\$'000	HK\$'000
Building management fee income	1,344	1,071
Interest income	90	51
Sundries	6,159	6,046
	<u>7,593</u>	<u>7,168</u>

6. EXPENSES BY NATURE

Expenses included in arriving at the profit before income tax are analysed as follows:

	Six months ended	
	30th September	
	2010	2009
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment		
– Owned	41,001	43,352
– Leased	299	353
Amortisation of prepayment of lease premium	3,616	3,288
Provision for stocks	2,984	5,241
Impairment of debtors	50	77
	<u>50,950</u>	<u>55,661</u>

7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits for the six months ended 30th September 2010 (2009: 16.5%) less relief for available tax losses. Taxation on overseas profits has been calculated on the estimated assessable profits for the six months ended 30th September 2010 at the rates of taxation prevailing in the territories in which the Group operates.

The amount of income tax charged to the consolidated income statement represents:

	Six months ended	
	30th September	
	2010	2009
	HK\$'000	HK\$'000
Current income tax		
Hong Kong profits tax	11,061	3,772
Overseas profits tax	15,571	12,159
Over provisions in respect of prior years	(810)	(216)
	<u>25,822</u>	<u>15,715</u>
Deferred income tax	(957)	(1,070)
	<u>24,865</u>	<u>14,645</u>

8. DIVIDEND

	Six months ended 30th September	
	2010	2009
	HK\$'000	HK\$'000
Interim, declared, of HK\$0.012 (2009: HK\$0.010) per ordinary share	<u>11,416</u>	<u>9,513</u>

At a meeting held on 29th November 2010, the directors declared an interim dividend of HK\$0.012 per ordinary share. This dividend is not recognized as a liability at the balance sheet date but will be reflected as an appropriation of retained earnings for the year ending 31st March 2011.

9. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30th September	
	2010	2009
Weighted average number of ordinary shares in issue (thousands)	<u>951,340</u>	<u>951,340</u>
Profit attributable to equity holders of the Company (HK\$'000)	<u>50,562</u>	<u>4,644</u>
Basic earnings per share (HK cents)	<u>5.31</u>	<u>0.49</u>

Dilutive

There were no dilutive potential ordinary shares in existence during the six months ended 30th September 2009 and 2010.

10. CAPITAL EXPENDITURE

	Goodwill <i>HKS '000</i>	Trademarks <i>HKS '000</i>	Total intangible assets <i>HKS '000</i>	Property, plant and equipment <i>HKS '000</i>	Investment properties <i>HKS '000</i>	Prepayment of lease premium <i>HKS '000</i>
Opening net book amount as at 1st April 2010, as previously reported	7,592	16,586	24,178	184,476	41,200	180,203
Effect of adoption of HKAS 17 (Amendment)	–	–	–	125,988	–	(125,988)
Opening net book amount as at 1st April 2010, as restated	7,592	16,586	24,178	310,464	41,200	54,215
Additions	–	–	–	46,164	–	20,073
Exchange differences	1,018	122	1,140	4,920	–	4,121
Disposals	–	–	–	(668)	(2,600)	(1,383)
Depreciation/amortisation	–	–	–	(41,300)	–	(3,616)
Closing net book amount as at 30th September 2010	<u>8,610</u>	<u>16,708</u>	<u>25,318</u>	<u>319,580</u>	<u>38,600</u>	<u>73,410</u>
Opening net book amount as at 1st April 2009, as previously reported	6,400	17,051	23,451	205,195	35,000	186,298
Effect of adoption of HKAS 17 (Amendment)	–	–	–	130,699	–	(130,699)
Opening net book amount as at 1st April 2009, as restated	6,400	17,051	23,451	335,894	35,000	55,599
Additions	–	–	–	31,221	–	–
Exchange differences	1,305	201	1,506	5,573	–	3,201
Disposals	–	–	–	(227)	–	–
Depreciation/amortisation	–	–	–	(43,705)	–	(3,288)
Closing net book amount as at 30th September 2009	<u>7,705</u>	<u>17,252</u>	<u>24,957</u>	<u>328,756</u>	<u>35,000</u>	<u>55,512</u>
Additions	–	–	–	33,079	–	–
Exchange differences	(113)	12	(101)	1,974	–	2,085
Disposals	–	–	–	(1,446)	–	–
Depreciation/amortisation	–	–	–	(47,008)	–	(3,382)
(Impairment)/fair value gains	–	(678)	(678)	(4,891)	6,200	–
Closing net book amount as at 31st March 2010	<u>7,592</u>	<u>16,586</u>	<u>24,178</u>	<u>310,464</u>	<u>41,200</u>	<u>54,215</u>

11. DEBTORS AND PREPAYMENTS

	30th September 2010 HK\$'000	31st March 2010 HK\$'000
Trade debtors, gross	161,235	146,195
Provision for impairment of trade debtors	(24,834)	(24,823)
	<hr/>	<hr/>
Trade debtors, net	136,401	121,372
Deposits, prepayments and other debtors	191,575	202,170
	<hr/>	<hr/>
	<u>327,976</u>	<u>323,542</u>
Trade debtors analysed by invoice date (<i>note</i>):		
Below 60 days	62,528	55,950
Over 60 days	98,707	90,245
	<hr/>	<hr/>
	<u>161,235</u>	<u>146,195</u>

Note:

The Group allows an average credit period of 60 days from the invoice date to its trade debtors.

12. SHARE CAPITAL

	Number of shares of HK\$0.1 each
Issued and fully paid:	
At 30th September 2009, 1st April 2010 and 30th September 2010	<u>951,340,023</u>

Note:

No share options were exercised, granted or lapsed during the six months ended 30th September 2010 and the year ended 31st March 2010.

13. CREDITORS AND ACCRUALS

	30th September 2010 HK\$'000	31st March 2010 HK\$'000
Trade creditors analysed by invoice date:		
Below 60 days	224,136	179,965
Over 60 days	24,422	21,737
	<hr/>	<hr/>
	248,558	201,702
Other creditors and accruals	182,338	153,012
	<hr/>	<hr/>
	<u>430,896</u>	<u>354,714</u>

14. BORROWINGS

	30th September 2010	31st March 2010
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank borrowings	(a) 476,928	531,606
Obligations under finance leases	(b) 720	728
	477,648	532,334
Amount repayable within one year included in current liabilities	(348,213)	(404,925)
	<u>129,435</u>	<u>127,409</u>

Note:

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

	30th September 2010	31st March 2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	347,787	404,459
Between 1 and 2 years	37,460	29,355
Between 2 and 5 years	56,802	58,291
Over 5 years	34,879	39,501
	<u>476,928</u>	<u>531,606</u>

Included in bank borrowings as at 30th September 2010 are secured borrowings amounted to HK\$172,590,000 (31st March 2010: HK\$203,512,000), which are secured by land buildings and an investment property of the Group.

- (b) The obligations under finance leases are payable as follows:

	30th September 2010	31st March 2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	475	507
Between 1 and 2 years	259	286
Between 2 and 5 years	81	19
	815	812
Future finance charges on finance leases	(95)	(84)
	<u>720</u>	<u>728</u>

The present value of finance lease liabilities is as follows:

Within 1 year	426	466
Between 1 and 2 years	217	256
Between 2 and 5 years	77	6
	<u>720</u>	<u>728</u>

15. COMMITMENTS

	30th September 2010 HK\$'000	31st March 2010 HK\$'000
Capital commitments for property, plant and equipment:		
Contracted but not provided for	–	8,030
Authorised but not contracted for	–	–
	<u>–</u>	<u>–</u>
	<u>–</u>	<u>8,030</u>

16. RELATED PARTY TRANSACTIONS

The ultimate holding company of the Group is Yee Hing Company Limited (“Yee Hing”) (incorporated in Hong Kong).

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

- (i) Sales of goods and services to related companies

	Six months ended 30th September	
	2010	2009
	HK\$'000	HK\$'000
Service income from a related company (<i>note</i>)	<u>1,071</u>	<u>1,071</u>

Note A wholly-owned subsidiary of the Group entered into agreement with Mengiwa Property Investment Limited (“MPIL”), a wholly-owned subsidiary company of Yee Hing, for the provision of the following services:

- (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\$178,500 per calendar month during the duration of the agreement.

- (ii) Purchases of goods and services from related companies

	Six months ended 30th September	
	HK\$'000	HK\$'000
Purchases of goods (<i>note a</i>)	<u>5,532</u>	<u>5,781</u>
Rental expense to related companies (<i>note b</i>)	<u>5,099</u>	<u>6,457</u>

Note:

- (a) During the period, certain subsidiaries of the Company purchased optical products from the Vision Pro Group and International Optical Manufacturing Company Limited, indirectly owned subsidiaries of Yee Hing, in accordance with the terms of written agreements for the Group’s retail and trading operations.

16. RELATED PARTY TRANSACTIONS (continued)

(ii) Purchases of goods and services from related companies (continued)

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

	Rental paid for the six months ended 30th September	
	2010	2009
	HK\$'000	HK\$'000
Mengiwa Property Investment Limited	2,825	3,427
Mengiwa Private Ltd	1,807	2,100
Other related parties	467	930
	<u>5,099</u>	<u>6,457</u>

(iii) Period/year-end balances arising from service income, purchases of goods and rental expenses

	30th September	31st March
	2010	2010
	HK\$'000	HK\$'000
Trading balances receivable from related companies	3,046	3,150
Trading balances payable to related companies	<u>6,077</u>	<u>6,315</u>

(iv) Key management compensation

	Six months ended 30th September	
	2010	2009
	HK\$'000	HK\$'000
Salaries and other short-term employee benefits	8,460	4,283
Other long-term benefits	107	104
	<u>8,567</u>	<u>4,387</u>

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF GROUP OPERATIONS

The Group is pleased to announce a profit attributable to shareholders after tax and minority interests of HK\$51 million for the first six months ended 30th September 2010 compared to around HK\$5 million over the same period last year. For the period under review, Group turnover rose 13% to HK\$1.26 billion returning to a pre-crisis turnover level. Improved retail sentiment in general in Asia, and, particularly, in Hong Kong boosted Group performance.

The Board recommends the payment of an interim dividend of HK\$0.012 (2009:HK\$0.010) per share to the Group's shareholders.

WATCH RETAIL BUSINESS

Our watch retail business comprising of "CITY CHAIN", "MOMENTS", "CITHARA", "C²" and "SEIKO boutique" recorded an EBIT of HK\$35 million, more than doubling EBIT posted over the corresponding period last year. Turnover was up by 10%.

Our stores in Hong Kong and Macau benefited hugely from strong tourist arrivals from the Mainland. As recognition of our brands on the Mainland, particularly, "CITY CHAIN" has grown with our growing network of stores in key cities like Beijing, Shanghai, Guangzhou, Shenzhen and Hangzhou, Mainland visitors have made our stores their first choice destination for mid-priced watches when they shop in Hong Kong and Macau. Effective marketing strategies, in particular, our "Solvil et Titus" marketing campaign also contributed to the improved results with turnover growth in these two territories averaging 16%. With higher profit margins achieved for the period under review, an EBIT of HK\$36 million was reported in Hong Kong, up sharply from the same period last year whilst Macau also reported an improved EBIT of HK\$7 million.

Our South East Asian operations reported an EBIT of HK\$8.5 million compared to HK\$20 million over the same period last year. The bloody protests in Thailand from March to May affected consumer spending dragging down both turnover and EBIT. An EBIT of HK\$12 million was reported compared to an EBIT of HK\$14 million during the same time last year. Our operations in Singapore and Malaysia returned disappointing results. General retail sentiment in these two countries, particularly, in the first quarter of this financial year failed to pick up as strongly and as quickly as in Hong Kong. However, there are signs of quickening recovery.

The Mainland retail market is one of the fastest growing in the world and shopping trends shift quickly compared to other more mature retail markets. In any developing retail market, evolving shopping patterns are normal. Over the last five years, there has been a huge shift in shopping patterns as consumers are drawn away from traditional street level shops and department stores into modern shopping malls, where consumers are able to shop, dine and be entertained all within one integrated complex – "a one stop shopping experience".

Therefore, we are consolidating our operations by closing non-performing stores, generally, those at street level and within department stores and opening more stores within shopping malls. This consolidation and repositioning process inevitably impacts, albeit temporarily, on our results.

The turnover from our Mainland operations (achieved by approximately a 10% reduction in store numbers compared to the same time last year) rose 11%. Gross profit margins were also higher

compared to the corresponding period last year. For the period under review, a loss of HK\$16 million was reported compared to HK\$19 million, narrowing by 17%.

The effects of ongoing Government stimulus measures to encourage domestic consumption are eventually permeating other segments of the market and we are beginning to see the impact of such measures on our business. As this spending momentum carries through into the next few years, we expect the performance of our Mainland operations to improve.

OPTICAL RETAIL BUSINESS

The Group's optical retail business comprising of "Optical 88" returned an EBIT of HK\$31 million, a sharp upturn from the same time last year and turnover rose by 14%.

Turnover in Hong Kong and Macau grew 13% and EBIT was HK\$25 million compared to HK\$7.5 million over the corresponding period last year. External factors, like the generally improved retail environment contributed to the positive performance. Effective marketing strategies implemented also kept profit margins at healthy levels.

Our "Optical 88" operations in South East Asia reported improved results compared to the first six months of last year with turnover growth averaging 13% and an EBIT of HK\$10.5 million compared to nearly HK\$6 million last year. Both Singapore and Malaysia also posted double-digit turnover growth and improved EBIT.

Our Mainland optical business operates from Guangzhou with a network of stores currently concentrated within Guangdong Province and we have plans to open stores outside of this Province in the next financial year 2011/2012. In line with shifting shopping trends and consumers' rising expectations, our current strategy is to open stores within modern shopping malls. Turnover at our Mainland operations grew 26% compared to the same time last year and a loss, slightly below HK\$5 million, around the same level as last year, was reported as office overheads increased in line with our plans to expand outside of Guangdong Province.

WATCH ASSEMBLY AND WHOLESALE TRADING

This segment of our business returned an EBIT of HK\$38 million up 74% over the same period last year. Turnover rose strongly by 24%.

Our watch assembly unit that produces for the Group recorded satisfactory results in line with our stock conditions.

The Thong Sia Group, sole distributor for "SEIKO" watches and clocks in Hong Kong, Singapore and Malaysia performed very much within expectations with all three subsidiaries returning improved results compared to the same period last year. Our Hong Kong business unit outperformed our other two subsidiaries in Singapore and Malaysia as strong visitor arrivals, particularly, from the Mainland contributed to buoyant buying sentiment in Hong Kong.

Our new wholesale unit set up to distribute "CYMA" watches on the Mainland returned a very satisfactory performance. This unit operates from both our Shanghai and Guangzhou offices and provides another platform to introduce and establish our brands on the Mainland thus complementing our existing watch retail business.

OUTLOOK

Generally, as the economic climate in the places where we operate is still favourable, the momentum from the last six months should carry through into the next six months. Therefore, barring any unforeseen circumstances the Group expects to return a good performance in the next six months.

FINANCE

The Group's gearing ratio at balance sheet date was 26% (at 31st March 2010: 38%), which was calculated based on the Group's net debt of HK\$241 million (at 31st March 2010: HK\$319 million) and shareholders' funds of HK\$931 million (at 31st March 2010: HK\$848 million). The Group's net debt was calculated based on the Group's borrowings of HK\$478 million (at 31st March 2010: HK\$532 million) less the Group's bank balances and cash of HK\$237 million (at 31st March 2010: HK\$213 million). Of the Group's borrowings at balance sheet date, HK\$348 million (at 31st March 2010: HK\$405 million) were repayable within 12 months.

Of the Group's borrowings, 8% (at 31st March 2010: 9%) were denominated in foreign currencies. The Group's bank borrowings denominated in Hong Kong Dollars were on a floating rate basis at either bank prime lending rates or short term inter-bank offer rates.

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

The Group does not engage in speculative derivative trading.

As at 30th September 2010, the Group does not have any significant contingent liabilities.

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

CAPITAL STRUCTURE OF THE GROUP

There was no change in the capital structure of the Group during the period.

CHANGES IN THE COMPOSITION OF THE GROUP

There was no change in the composition of the Group during the period.

NUMBER AND REMUNERATION OF EMPLOYEES, REMUNERATION POLICIES, BONUS AND TRAINING SCHEMES

The Group's remuneration policies are reviewed on a regular basis and remuneration packages are in line with market practices in the relevant countries where the Group operates. As of 30th September 2010, the Group had 3,070 (at 30th September 2009: 3,175) employees.

DETAILS OF THE CHARGES ON GROUP ASSETS

At 30th September 2010, certain of the Group's property, plant and equipment amounting to HK\$182 million (at 31st March 2010: HK\$184 million), investment property amounting to HK\$39 million (at 31st March 2010: HK\$39 million) and leasehold land amounting to HK\$18 million (31st March 2010: HK\$15 million) were pledged to secure banking facilities granted to the Group.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES

Mr Wong Chong Po, Mr Joseph C. C. Wong, Mr Anthony Chu Kai Wah and Mr Vincent Lau Tak Bui are eligible to an annual bonus determinable under the terms of an executive bonus scheme with respect to the management of the Group. Provision for the executive bonus in respect of the directors eligible under the Executive Bonus Scheme for the six months ended 30th September 2010 amounted to HK\$4,429,000 (2009: HK\$337,000).

As at 30th September 2010, 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 Wong Chong Po	1,215,000	-	300,378,959 <i>(Note 1)</i>	309,079,884 <i>(Note 2)</i>	310,294,884	32.62
Mr Joseph C. C. Wong	278,240,091	10,000	300,378,959 <i>(Note 1)</i>	-	578,629,050	60.82
Mr Chu Kai Wah, Anthony	2,000,000	-	-	-	2,000,000	0.21
Mr Sakorn Kanjanapas	47,452,056	-	300,378,959 <i>(Note 1)</i>	-	347,831,015	36.56
Mr Lau Tak Bui, Vincent	819,200	-	-	-	819,200	0.09

Notes:

- (1) Yee Hing Company Limited, directly and indirectly through its subsidiaries including Active Lights Company Limited and Thong Sia Company Limited, held 300,378,959 shares of the Company as at 30th September 2010. 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. Wong Chong Po, Mr. Joseph C.C. Wong and Mr. Sakorn Kanjanapas are the beneficiaries of the Trust and were therefore deemed to be interested in 300,378,959 shares of the Company through the Trust's interest in Yee Hing Company Limited.
- (2) Mr. Wong Chong Po is the executor of the estate of Mr. Wong Chue Meng (the "Estate") and is deemed to be interested in the interests in shares of the Company held by the Estate. As at 30th September 2010, the Estate directly held 8,700,925 shares and is also deemed to be interested in those 300,378,959 shares of the Company held directly or indirectly by Yee Hing Company Limited through the Estate's controlling interest in Dragon Master Investment Limited which owns 45% of the total issued ordinary shares of Yee Hing Company Limited. Mr. Wong Chong Po's deemed interest in such 300,378,959 shares of the Company by virtue of his capacity as the executor of the Estate duplicates his deemed interest through the Trust as described in Note 1 above.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES *(continued)*

(b) Subsidiary companies

	Number of shares			Total	Approximate percentage of preference shares
	Personal interest	Family interest	Corporate interest		
(i) City Chain (Thailand) Company Limited – Preference shares ⁽¹⁾					
Mr Wong Chong Po	200	–	208,800	209,000	99.52
Mr Joseph C. C. Wong	200	–	208,800	209,000	99.52
Mr Sakorn Kanjanapas	200	–	208,800	209,000	99.52
(ii) Stelux Watch (Thailand) Company Limited – Preference shares ⁽²⁾					
Mr Wong Chong Po	600	–	–	600	16.67
Mr Joseph C. C. Wong	600	–	–	600	16.67
Mr Sakorn Kanjanapas	600	–	–	600	16.67
(iii) Optical 88 (Thailand) Company Limited – Preference shares ⁽³⁾					
Mr Wong Chong Po	5,000	–	225,000	230,000	90.20
Mr Joseph C. C. Wong	5,000	–	225,000	230,000	90.20
Mr Sakorn Kanjanapas	5,000	–	225,000	230,000	90.20

Notes:

- (1) City Chain (Thailand) Company Limited is a subsidiary of the Company. Each preference share carries a right to vote and a right to an annual fixed dividend but not to any other profit sharing. The corporate interests of each of Mr Wong Chong Po, Mr Joseph C. C. Wong and Mr Sakorn Kanjanapas in 208,800 preference shares duplicate with each other.
- (2) Stelux Watch (Thailand) Company Limited is a subsidiary of the Company. Each preference share carries a right to vote and a right to an annual fixed dividend but not to any other profit sharing.
- (3) Optical 88 (Thailand) Company Limited is a subsidiary of the Company. Each preference share carries a right to vote and a right to an annual fixed dividend but not to any other profit sharing. The corporate interests of each of Mr Wong Chong Po, Mr Joseph C. C. Wong and Mr Sakorn Kanjanapas in 225,000 preference shares duplicate with each other.

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

INTERESTS OF SHAREHOLDERS DISCLOSEABLE PURSUANT TO THE SFO

Save as disclosed below, 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 30th September 2010:

Name	Number of shares	Nature of interest	Approximate percentage of interests (%)
Yee Hing Company Limited	73,693,105 226,685,854	Beneficial owner Interest of controlled corporation	31.57
	Total: 300,378,959		
Dragon Master Investment Limited	300,378,959	Interest of controlled corporation (<i>Note 1</i>)	31.57
Klayze Holdings Limited	300,378,959	Trustee of the Trust (<i>Note 2</i>)	31.57
Active Lights Company Limited	135,653,636	Beneficial owner	14.26
Thong Sia Company Limited	91,032,218	Beneficial owner	9.57
Mr. Chaiyasit Kanjanapas	85,303,000	Beneficial owner	8.97

Notes:

- (1) Dragon Master Investment Limited holds 45% of the total issued ordinary shares of Yee Hing Company Limited.
- (2) Klayze Holdings Limited holds 55% of the total issued ordinary shares of Yee Hing Company Limited as the trustee of the Trust.

All interests disclosed above represent long positions in shares of the Company.

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.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 3rd January 2011 (Monday) to 7th January 2011 (Friday) both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the entitlement to the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Registrar, Computershare Hong Kong Investor Services Limited, 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 31st December 2010 (Friday). The interim dividend will be paid on 21st January 2011 (Friday).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

CORPORATE GOVERNANCE

During the six months ended 30th September 2010, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code Provisions") as set out in Appendix 14 of the Listing Rules, except for the following deviations:

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 but in accordance with the Company's Bye-Laws. 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, Vice-Chairman or Chief Executive Officer, 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.

Code Provision E.1.2

Under the first part of Code Provision E.1.2, the Chairman of the Board should attend annual general meetings. The Chairman of the Board did not attend the annual general meeting of the Company held on 8th September 2010 as he was not in Hong Kong. The Chairman of the Audit Committee and a designated representative from the Remuneration Committee were present.

Audit Committee

On 14th July 2010 and 23rd November 2010, the Audit Committee together with the management of the Company reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including review of the Group's results for the year ended 31st March 2010 and for the six months ended 30th September 2010 respectively before they were presented to the Board of directors for approval.

Remuneration Committee

The Remuneration Committee met on 6th May 2010 to determine annual bonus entitlement and conduct a review on the salaries of the executive directors.

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 30th September 2010.

PUBLICATION OF FINANCIAL INFORMATION AND INTERIM REPORT

This results announcement is published on the website of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk under “Latest Listed Company Information” and the Company’s website at www.irasia.com/listco/hk/stelux under “Announcements & Notices”. The Company’s Interim Report for 2010/2011 will be despatched to the shareholders of the Company and will also be available on the above websites in due course.

On behalf of the Board

Joseph C. C. Wong

Vice Chairman and Chief Executive Officer

Hong Kong, 29th November 2010

Directors of the Company as at the date hereof:

Executive directors:

Wong Chong Po (Chairman), Chumphol Kanjanapas (alias Joseph C. C. Wong) (Vice Chairman and Chief Executive Officer), Anthony Chu Kai Wah and Vincent Lau Tak Bui

Non-Executive directors:

Sakorn Kanjanapas, Wu Chun Sang (independent), Lawrence Wu Chi Man (independent) and Agnes Kwong Yi Hang (independent)