STELUX Holdings International Limited

寶光實業(國際)有限公司*

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

ANNOUNCEMENT OF RESULTS
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2008

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 2008 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2008

		Unaudited	
		Six months ended	
		30th September	
		2008	2007
	Note	***HK$'000***	*HK$'000*
Revenues	*2, 3*	**1,224,066**	1,021,008
Cost of sales		**(491,566)**	(406,629)
Gross profit		**732,500**	614,379
Other loss	*4*	**(5,570)**	(975)
Other income	*5*	**10,298**	9,867
Selling expenses		**(533,058)**	(447,196)
General and administrative expenses		**(125,863)**	(104,538)
Other operating (expenses)/income		**(12,843)**	4,559
Operating profit		**65,464**	76,096
Finance costs		**(7,966)**	(9,066)
Profit before income tax	*6*	**57,498**	67,030
Income tax expense	*7*	**(20,815)**	(16,884)
Profit for the period		**36,683**	50,146
Attributable to:			
Equity holders of the Company		**36,407**	49,911
Minority interests		**276**	235
		36,683	50,146
Dividend	*8*	**–**	11,416
		HK cents	*HK cents*
Earnings per share for profit attributable to the equity holders of the Company			
– Basic and diluted	*9*	**3.83**	5.25

* *For identification only*

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30TH SEPTEMBER 2008

	Note	Unaudited 30th September 2008 HK$'000	31st March 2008 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**225,903**	228,328
Investment properties		**40,694**	2,100
Prepayment of lease premium		**194,468**	205,489
Intangible assets		**24,556**	24,884
Deferred tax assets		**39,089**	36,831
Available-for-sale financial assets		**17,158**	17,158
		541,868	514,790
Current assets			
Stocks		**822,870**	741,391
Debtors and prepayments	*10*	**380,939**	406,247
Bank balances and cash		**176,792**	166,567
		1,380,601	1,314,205
Total assets		**1,922,469**	1,828,995
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		**95,134**	95,134
Reserves		**757,654**	747,616
Shareholders' funds		**852,788**	842,750
Minority interests		**4,255**	4,751
Total equity		**857,043**	847,501
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		**1,286**	1,456
Borrowings		**165,786**	144,952
		167,072	146,408
Current liabilities			
Creditors and accruals	*11*	**465,573**	476,667
Income tax payable		**36,007**	32,979
Borrowings		**396,774**	325,440
		898,354	835,086
Total liabilities		**1,065,426**	981,494
Total equity and liabilities		**1,922,469**	1,828,995
Net current assets		**482,247**	479,119
Total assets less current liabilities		**1,024,115**	993,909

NOTES:–

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 2008 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 2008.

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 2008. Those that are relevant to the Group's operations are as follows:

HK(IFRIC)-Int 14	HKAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction

The adoption of the above revised accounting standard has no significant impact on the Group 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 2009.

2. SEGMENT INFORMATION

Primary reporting format – business segments

	Six months ended 30th September 2008			
	Retail and trading		**Property**	**Group Total**
	Watch	**Optical**		
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Revenues				
Gross segment	**801,620**	**422,272**	**6,227**	**1,230,119**
Inter-segment	**–**	**–**	**(6,053)**	**(6,053)**
	801,620	**422,272**	**174**	**1,224,066**
Segment results	**65,728**	**23,371**	**(415)**	**88,684**
Unallocated income				**52**
Net corporate expenses				**(23,272)**
Operating profit				**65,464**
Finance costs				**(7,966)**
Profit before income tax				**57,498**
Income tax expense				**(20,815)**
Profit after income tax				**36,683**

	Six months ended 30th September 2007			
	Retail and trading		Property	Group Total
	Watch	Optical		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenues				
Gross segment	647,378	372,378	7,700	1,027,456
Inter-segment	–	–	(6,448)	(6,448)
	647,378	372,378	1,252	1,021,008
Segment results	46,669	31,483	16,566	94,718
Unallocated income				2,120
Net corporate expenses				(20,742)
Operating profit				76,096
Finance costs				(9,066)
Profit before income tax				67,030
Income tax expense				(16,884)
Profit after income tax				50,146

2. **SEGMENT INFORMATION (Continued)**

Secondary reporting format – geographical segments

	Six months ended 30th September			
	Revenues		Segment Results	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**627,966**	552,278	**55,203**	67,040
Mainland China	**82,871**	58,385	**(16,692)**	(16,393)
Rest of Asia	**503,964**	404,440	**55,845**	51,068
Outside Asia	**9,265**	5,905	**(5,672)**	(6,997)
	1,224,066	1,021,008	**88,684**	94,718

3. **REVENUES**

	Six months ended 30th September	
	2008	2007
	HK$'000	*HK$'000*
Turnover		
Sales of goods	**1,223,892**	1,019,756
Gross rental income	**174**	1,252
	1,224,066	1,021,008

4. **OTHER LOSS**

	Six months ended 30th September	
	2008	2007
	HK$'000	*HK$'000*
Exchange loss, net	**(5,570)**	(975)

5. **OTHER INCOME**

	Six months ended 30th September	
	2008	2007
	HK$'000	*HK$'000*
Building management fee income	**1,071**	1,410
Interest income	**1,226**	1,917
Sundries	**8,001**	6,540
	10,298	9,867

6. EXPENSES BY NATURE

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

	Six months ended 30th September	
	2008	2007
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment		
– Owned	**42,163**	31,523
– Leased	**705**	196
Amortisation of prepayment of lease premium	**5,704**	4,774
Loss on disposal of property, plant and equipment	**112**	858
Provision for stocks	**3,570**	3,087
Reversal of bad debts provision	**(123)**	(18,584)
Impairment of debtors and bad debts written off	**742**	1,041

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 2008 (2007: 17.5%) 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 2008 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	
	2008	2007
	HK$'000	*HK$'000*
Current tax		
Hong Kong profits tax	**10,587**	9,829
Overseas profits tax	**12,985**	11,978
Under/(over) provisions in respect of prior years	**431**	(333)
	24,003	21,474
Deferred income tax	**(3,188)**	(4,590)
Income tax expense	**20,815**	16,884

8. DIVIDEND

	Six months ended 30th September	
	2008	2007
	HK$'000	*HK$'000*
No interim dividend for 2008 (2007: HK$0.012 per ordinary share)	**–**	11,416

At a meeting held on 17th December 2008, the directors did not propose the payment of interim dividend for the six months ended 30th September 2008 (2007: HK$0.012 per ordinary share).

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	
	2008	2007
Weighted average number of ordinary shares in issue (thousands)	**951,340**	951,340
Profit attributable to equity holders of the Company (HK$'000)	**36,407**	49,911
Basic earnings per share (HK cents)	**3.83**	5.25

Diluted

There were no dilutive potential ordinary shares in existence during the six months ended 30th September 2008 and 2007.

10. DEBTORS AND PREPAYMENTS

The Group allows an average credit period of 60 days to its trade debtors. Included in debtors and prepayments are trade debtors (net of impairment of debtors) with the following aging analysis:

	30th September 2008	31st March 2008
	HK$'000	*HK$'000*
Trade debtors		
Below 60 days	**70,372**	58,482
Over 60 days	**100,429**	140,161
	170,801	198,643
Deposits, prepayments and other debtors	**210,138**	207,604
	380,939	406,247

11. CREDITORS AND ACCRUALS

	30th September 2008	31st March 2008
	HK$'000	*HK$'000*
Trade creditors		
Below 60 days	**164,990**	121,880
Over 60 days	**138,336**	170,665
	303,326	292,545
Other creditors and accruals	**162,247**	184,122
	465,573	476,667

12. COMMITMENTS

	30th September 2008	31st March 2008
	HK$'000	*HK$'000*
Capital commitments for property, plant and equipment:		
Contracted but not provided for	**2,911**	907
Authorised by not contracted for	**–**	612
	2,911	1,519

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF GROUP OPERATIONS

The Group announces a profit attributable to shareholders after tax and minority interest of HK$36 million for the first six months ended 30th September 2008 compared to HK$50 million for the same period last year. Group turnover was up 20% standing at HK$1.2 billion compared to HK$1 billion over the corresponding period.

Taking into account the reversal of bad debts provision of HK$18 million (included in the profit for the first six months of last year) and a one off deduction of exchange loss of HK$4 million due to the restructuring of an intermediate holding company (included in the profit reported for the first six months of this year), performance for the period under review actually improved by around 25%.

EBIT from the Group's core watch and optical businesses stood at HK$89 million up by 14%.

The sharp downturn of the overall business environment since October this year has markedly affected retail sentiment. The Directors have therefore adopted a prudent approach and proposed that no interim dividend be payable for the period under review. However should business conditions allow, it is the Board's intention to propose a resumption of dividend payment as soon as possible.

WATCH RETAIL BUSINESS

The Group's watch retail business, namely, "CITY CHAIN", "moments", "CITHARA" and "C^2" reported healthy growth in both EBIT and turnover of 28% and 27% respectively.

Operations in Hong Kong and Macau returned an EBIT of HK$27 million, increasing by 48%, with turnover increasing almost 30% as the momentum brought on by reengineering the "look and feel" of "CITY CHAIN" stores and the introduction of new concept stores took effect.

During the period under review, severe inflationary pressures brought on by high oil prices and exchange rate fluctuations seriously impacted our South East Asian operations and mixed results were reported.

In Singapore, turnover grew by 27% but EBIT was down 21% at HK$3 million due to the combined effect of higher operating costs and an exchange loss.

Exchange loss dragged down the EBIT reported by our Malaysian operations, which otherwise would have seen same period EBIT growth of almost 36%. An EBIT of HK$7 million close to that of the previous period last year was reported and turnover was up 47%.

Our Thai operations returned a 16% increase in EBIT of almost HK$13 million managing to maintain turnover, notwithstanding the political turmoil, exchange loss and underlying severe inflation.

Our mainland operations, which have grown significantly over the last few years remain a key market for future growth. We now operate through three strategically located regional offices in Beijing, Shanghai and Guangzhou, with each office overseeing respective operations in Northern China, Central China and Southern China. Overall, turnover grew more than 30%, compared to the corresponding period last year. With our operations in Southern and Central China beginning to mature, performance will continue to improve. For the period under review, a loss of HK$13 million was reported, about a million more than the same period last year, largely attributable to costs related to the opening of new shops and, particularly, our new regional office in Beijing.

For the next 12 to 18 months, shop numbers in all regions except Mainland China will be maintained at about current levels and non-performing shops will be substituted by new shops with better earning potential. In Mainland China, shop expansion will continue but at a more moderate pace. We do not have plans to add other regional offices in Mainland China until breakeven results are achieved.

OPTICAL RETAIL BUSINESS

The Group's optical retail business posted an EBIT of HK$23 million with turnover growth of 13%.

Hong Kong and Macau reported a small increase in turnover growth but a fall in EBIT. EBIT stood at around HK$21 million down almost 29% compared to the same period last year. Intense market competition that saw gross margins slip and the start up costs of our new concept shops were contributing factors.

As it takes a longer time to build an optical concept shop compared to an equivalent watch concept shop and in view of the difficult market conditions, most concept shops have now been changed to "Optical 88" shops. We have since seen significant improvements in performance from these shops.

To a similar extent as our watch retail business, severe inflation spurred by spiraling high oil prices largely affected our customers' purchasing powers thus impacting turnover growth in Singapore, Malaysia and Thailand. Therefore, expected strong turnover growth, particularly from new shops, did not fully materialize. Exchange rate fluctuations also impacted. Due to these factors, mixed results were reported.

Our operations in Singapore returned a turnover growth of 26% and breakeven results.

In Malaysia, where our optical business is still developing and shop numbers nearly doubled compared to the same period last year, a turnover growth of 73% was insufficient to offset related costs and a small loss was reported.

In Thailand, where political instability has been rife, our optical operations returned a 14% increase in turnover and further reported an EBIT of HK$7 million, a 11% increase.

The turnover of our optical operations in Mainland China (which remains a key market for future growth) grew a robust 80% and losses have narrowed by around HK$1 million to HK$3 million.

For shop expansion, we will adopt a similar policy as our watch retail business.

WATCH EXPORT ASSEMBLY AND WHOLESALE TRADING

Our watch export, assembly and wholesale trading operations recorded an EBIT of nearly HK$29 million, up 62%. Turnover increased by 14%.

Performance of our export arm improved and a small profit was reported. However with the sudden downturn in markets such as US, Europe and Japan, certain cost rationalization measures were recently undertaken.

Improved results were seen at our watch assembly unit that produces watches for the Group.

Delivery problems with the "MICROTOR" movement continued to plague Universal Geneve and a loss of nearly HK$10 million was made. The results were disappointing. In view of the current global crisis, the Board intends to arrive at a decision with the expectation that the performance of this subsidiary will not continue to affect the Group's future results.

The Thong Sia Division, our wholesale arm operating in Hong Kong, Singapore, Malaysia and Taiwan performed to expectations reporting increases in EBIT and turnover of 24% and 12% respectively. The next six months will be quite challenging for this Division as the credit crunch bites and the recovery of receivables from customers may be affected. As we continue to closely monitor receivables, tighter credit control measures are already in place.

OUTLOOK

With the sharp turnaround in business sentiment around October this year, the momentum from last year carried through into the first three months of the Group's businesses this financial year has slowed down considerably. Since November/December this year, consumer sentiment in China has also slowed down. These difficult market conditions are likely to persist over some period of time.

In response, aggressive cost control and inventory control measures have been put in place. Moreover, the Board's decision not to propose an interim dividend for the period under review so as to conserve cash will also enable us to benefit from this crisis should opportunities arise.

Despite the prevailing gloom, we remain confident of maintaining the Group's competitive edge and its leading market positions in the watch and optical businesses. This, we believe will be done by implementing carefully planned growth strategies – firstly, for longer term brand development continuing to build up our higher profit margin house brands and secondly, moderately growing our businesses on the Mainland market where, in this respect, the recently announced stimulus package by the Chinese Government to encourage domestic consumption will complement our growth strategy.

FINANCE

The Group's gearing ratio at balance sheet date was 45% (at 31st March 2008: 36%), which was calculated based on the Group's net debt of HK$386 million (at 31st March 2008: HK$304 million) and shareholders' funds of HK$853 million (at 31st March 2008: HK$843 million). The Group's net debt was calculated based on the Group's borrowings of HK$563 million (at 31st March 2008: HK$470 million) less the Group's bank balances and cash of HK$177 million (at 31st March 2008: HK$166 million). Of the Group's borrowings at balance sheet date, HK$397 million (at 31st March 2008: HK$325 million) were repayable within 12 months.

Of the Group's borrowings, 5% (at 31st March 2008: 2%) 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 engage in speculative derivative trading.

The Group enters into forward foreign exchange contracts when it is deemed appropriate as hedges against its foreign currency exposures. The forward foreign exchange contracts are used to settle trade creditors and operating expenses. The hedging activities are regularly reviewed by the Group.

As at 30th September 2008, the Group does not have any significant contingent liabilities.

The Group does not have plans for material investments or 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 2008, the Group had 3,084 (at 30th September 2007: 2,888) employees.

DETAILS OF THE CHARGES ON GROUP ASSETS

At 30th September 2008, certain of the Group's property, plant and equipment amounting to HK$59 million (at 31st March 2008: HK$59 million), investment property amounting to HK$39 million (at 31st March 2008: nil) and leasehold land amounting to HK$150 million (31st March 2008: HK$156 million) were pledged to secure banking facilities granted to the Group.

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 30th September 2008, 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 the 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 2008 as he was not in Hong Kong.

Audit Committee

On 12th December 2008, the Audit Committee together with the management of the Company reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including review of the Group's results for the six months ended 30th September 2008 before they were presented to the board of directors for approval.

Remuneration Committee

The Remuneration Committee did not meet during the period under review.

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 2008.

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 "Announcement & Notices". The Company's Interim Report for 2008/2009 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, 17th December 2008

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)