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# STELUX Holdings International Limited

寶光實業(國際)有限公司\*

incorporated in Bermuda with limited liability

Website: <http://www.stelux.com>

Stock Code: 84

## ANNOUNCEMENT OF RESULTS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2011

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 2011 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2011

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>30th September</b>	
		<b>2011</b>	<b>2010</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenues	4,5	<b>1,587,321</b>	1,261,361
Cost of sales		<b>(627,280)</b>	(499,471)
Gross profit		<b>960,041</b>	761,890
Other (losses)/gains, net	6	<b>(2,843)</b>	6,598
Other income	7	<b>8,603</b>	7,593
Selling expenses		<b>(633,614)</b>	(562,401)
General and administrative expenses		<b>(152,076)</b>	(123,883)
Other operating expenses		<b>(25,034)</b>	(9,340)
Operating profit		<b>155,077</b>	80,457
Finance costs		<b>(5,013)</b>	(4,692)
Profit before income tax	8	<b>150,064</b>	75,765
Income tax expense	9	<b>(34,455)</b>	(24,865)
Profit for the period		<b>115,609</b>	50,900

\* For identification purpose only

**CONDENSED CONSOLIDATED INCOME STATEMENT (Continued)**

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>30th September</b>	
		<b>2011</b>	<b>2010</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Attributable to:			
Equity holders of the Company		<b>115,318</b>	50,562
Non-controlling interests		<b>291</b>	338
		<hr/>	<hr/>
		<b>115,609</b>	50,900
		<hr/> <hr/>	<hr/> <hr/>
Dividends	<i>10</i>	<b>33,297</b>	11,416
		<hr/> <hr/>	<hr/> <hr/>
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share for profit attributable to the equity holders of the Company	<i>11</i>		
– Basic and diluted		<b>12.12</b>	5.31
		<hr/> <hr/>	<hr/> <hr/>

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2011**

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30th September</b>	
	<b>2011</b>	<b>2010</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	<u>115,609</u>	<u>50,900</u>
Other comprehensive income:		
Exchange differences	<u>(3,145)</u>	<u>32,859</u>
Other comprehensive income for the period, net of tax	<u>(3,145)</u>	<u>32,859</u>
Total comprehensive income for the period	<u><b>112,464</b></u>	<u><b>83,759</b></u>
Attributable to:		
Equity holders of the Company	<u>112,460</u>	<u>83,103</u>
Non-controlling interests	<u>4</u>	<u>656</u>
Total comprehensive income for the period	<u><b>112,464</b></u>	<u><b>83,759</b></u>

**CONDENSED CONSOLIDATED BALANCE SHEET  
AS AT 30TH SEPTEMBER 2011**

	<i>Note</i>	<b>Unaudited 30th September 2011 HK\$'000</b>	31st March 2011 HK\$'000
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment		346,250	321,114
Investment property		52,000	52,000
Prepayment of lease premium		67,747	73,549
Intangible assets		38,712	26,387
Deferred tax assets		61,075	55,794
Available-for-sale financial assets		14,639	14,639
		<u>580,423</u>	<u>543,483</u>
Current assets			
Stocks		955,340	777,411
Debtors and prepayments	12	395,284	337,044
Bank balances and cash		245,242	226,080
		<u>1,595,866</u>	<u>1,340,535</u>
Total assets		<u><u>2,176,289</u></u>	<u><u>1,884,018</u></u>
<b>EQUITY</b>			
Capital and reserves attributable to the equity holders of the Company			
Share capital		95,134	95,134
Reserves		976,051	886,403
Shareholders' funds		1,071,185	981,537
Non-controlling interests		8,469	8,650
Total equity		<u>1,079,654</u>	<u>990,187</u>
<b>LIABILITIES</b>			
Non-current liabilities			
Deferred tax liabilities		2,352	2,198
Borrowings		95,029	67,742
		<u>97,381</u>	<u>69,940</u>
Current liabilities			
Creditors and accruals	13	555,545	425,613
Income tax payable		60,074	28,482
Borrowings		383,635	369,796
		<u>999,254</u>	<u>823,891</u>
Total liabilities		<u>1,096,635</u>	<u>893,831</u>
Total equity and liabilities		<u><u>2,176,289</u></u>	<u><u>1,884,018</u></u>
Net current assets		<u>596,612</u>	<u>516,644</u>
Total assets less current liabilities		<u><u>1,177,035</u></u>	<u><u>1,060,127</u></u>

## 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 2011 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 2011.

The following amendments to standards are mandatory for the first time for the financial year beginning 1st April 2011:

- HKAS 24 (Revised) ‘Related Party Disclosures’ is effective for annual periods beginning on or after 1st January 2011. It introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government. It also clarifies and simplifies the definition of a related party. The revised standard has no material impact on the Group’s consolidated financial statements.
- Amendment to HKAS 34 ‘Interim Financial Reporting’ is effective for annual periods beginning on or after 1st January 2011. It emphasises the existing disclosure principles in HKAS 34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The change in accounting policy only results in additional disclosures.

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 2011. Those that are relevant to the Group’s operations are as follows:

HKFRS 1 Amendment	Amendment to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for first-time Adopters
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments
Improvements to HKFRSs 2010	

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 2012.

## **2. ESTIMATES**

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2011.

## **3. FINANCIAL RISK MANAGEMENT**

### **3.1 Financial risk factors**

The Group's activities expose it to a variety of financial risks: foreign exchange risk, interest rate risk, credit risk and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 March 2011.

There have been no changes in the risk management policies since year end.

### **3.2 Fair value estimation**

The Group's financial instruments carried at fair value is analysed by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's available-for-sale financial assets are measured at fair value by discounting the estimated future cash flows. Their fair value measurement is classified as level 3.

There was no transfer of financial instruments into or out of level 3 during the period.

There were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities during the period.

There were no reclassifications of financial assets during the period.

#### 4. 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 2011						
	Watch retail		Optical retail				Group Total
	Hong Kong, Macau and Mainland China	Rest of Asia	Hong Kong, Macau and Mainland China	Rest of Asia	Watch wholesale trading	Other segment	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Revenues</b>							
Gross segment	587,640	238,244	412,074	148,966	421,985	6,822	1,815,731
Inter-segment	–	–	–	–	(222,368)	(6,042)	(228,410)
	<u>587,640</u>	<u>238,244</u>	<u>412,074</u>	<u>148,966</u>	<u>199,617</u>	<u>780</u>	<u>1,587,321</u>
<b>Segment results</b>	<u>87,650</u>	<u>(2,500)</u>	<u>45,046</u>	<u>10,536</u>	<u>47,048</u>	<u>(1,908)</u>	185,872
<b>Unallocated income</b>							16
<b>Net corporate expenses</b>							(30,811)
<b>Operating profit</b>							155,077
<b>Finance costs</b>							(5,013)
<b>Profit before income tax</b>							150,064
<b>Income tax expense</b>							(34,455)
<b>Profit after income tax</b>							<u>115,609</u>

#### 4. SEGMENT INFORMATION (Continued)

	Six months ended 30th September 2010						
	Watch retail		Optical retail				Group Total
	Hong Kong, Macau and Mainland China	Rest of Asia	Hong Kong, Macau and Mainland China	Rest of Asia	Watch wholesale trading	Other segment	
	<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>

#### 5. REVENUES

	Six months ended	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Sales of goods	1,586,541	1,260,584
Gross rental income	780	777
	<u>1,587,321</u>	<u>1,261,361</u>



## 6. OTHER (LOSSES)/GAINS, NET

	Six months ended 30th September	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gain on disposal of property, plant and equipment, net	620	60
Gain on disposal of an investment property	–	1,296
Exchange (loss)/gain, net	(3,463)	5,242
	<u>(2,843)</u>	<u>6,598</u>

## 7. OTHER INCOME

	Six months ended 30th September	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Building management fee income	1,129	1,344
Interest income	230	90
Sundries	7,244	6,159
	<u>8,603</u>	<u>7,593</u>

## 8. EXPENSES BY NATURE

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

	Six months ended 30th September	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation of property, plant and equipment		
– Owned	38,753	41,001
– Leased	157	299
Amortisation of prepayment of lease premium	3,930	3,616
Provision for stocks	18,431	2,984
Impairment of property, plant and equipment	2,558	–
	<u>63,829</u>	<u>49,900</u>

## 9. 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 2011 (2010: 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 2011 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:

	<b>Six months ended 30th September</b>	
	<b>2011</b>	<b>2010</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Current income tax		
Hong Kong profits tax	<b>24,588</b>	11,061
Overseas profits tax	<b>15,635</b>	15,571
Over provisions in respect of prior years	<b>(118)</b>	(810)
	<b>40,105</b>	25,822
Deferred income tax	<b>(5,650)</b>	(957)
Income tax expense	<b>34,455</b>	24,865

## 10. DIVIDEND

	<b>Six months ended 30th September</b>	
	<b>2011</b>	<b>2010</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interim, declared, of HK\$0.035 (2010: HK\$0.012) per ordinary share	<b>33,297</b>	11,416

At a meeting held on 29th November 2011, the directors declared an interim dividend of HK\$0.035 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 2012.

## 11. 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.

	<b>Six months ended 30th September</b>	
	<b>2011</b>	<b>2010</b>
Weighted average number of ordinary shares in issue (thousands)	<b>951,340</b>	951,340
Profit attributable to equity holders of the Company (HK\$'000)	<b>115,318</b>	50,562
Basic earnings per share (HK cents)	<b>12.12</b>	5.31

## 11. EARNINGS PER SHARE (Continued)

### Dilutive

There were no dilutive potential ordinary shares in existence during the six months ended 30th September 2010 and 2011.

## 12. DEBTORS AND PREPAYMENTS

	30th September 2011 <i>HK\$'000</i>	31st March 2011 <i>HK\$'000</i>
Trade debtors, gross	169,969	153,094
Provision for impairment of trade debtors	(24,853)	(24,943)
Trade debtors, net	<u>145,116</u>	<u>128,151</u>
Deposits, prepayments and other debtors	<u>250,168</u>	<u>208,893</u>
	<u><b>395,284</b></u>	<u><b>337,044</b></u>
Trade debtors analysed by invoice date ( <i>note</i> ):		
Below 60 days	73,140	54,098
Over 60 days	96,829	98,996
	<u><b>169,969</b></u>	<u><b>153,094</b></u>

### Note:

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

## 13. CREDITORS AND ACCRUALS

	30th September 2011 <i>HK\$'000</i>	31st March 2011 <i>HK\$'000</i>
Trade creditors analysed by invoice date:		
Below 60 days	280,831	193,095
Over 60 days	53,853	65,270
	<u>334,684</u>	<u>258,365</u>
Other creditors and accruals	<u>220,861</u>	<u>167,248</u>
	<u><b>555,545</b></u>	<u><b>425,613</b></u>

## 14. COMMITMENTS

	30th September 2011 <i>HK\$'000</i>	31st March 2011 <i>HK\$'000</i>
<b>Capital commitments for property, plant and equipment:</b>		
Contracted but not provided for	6,141	7,780
Authorised but not contracted for	—	—
	<u><b>6,141</b></u>	<u><b>7,780</b></u>

## MANAGEMENT DISCUSSION AND ANALYSIS

The Board of Directors (the “Board”) of Stelux Holdings International Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30th September 2011 (the “Period under Review”).

### BUSINESS REVIEW

The Group is principally engaged in the retailing of mid-range priced watch and optical products under the respective brand names, “**CITY CHAIN**”, and, “**OPTICAL 88**”, in Hong Kong, Macau, China and Southeast Asia. With close to 600 stores, we are presently the largest watch and optical retail chain brand in the region, and together with our watch wholesale business, we have one of the biggest exposures to the mass market.

For the Period under Review, the Group’s overall revenue increased by 26% to HK\$1,587 million (2010: HK\$1,261 million) with approximately 70% of Group sales derived from the Greater China region. Gross profit rose by 26% to HK\$960 million (2010: HK\$762 million), and a net profit attributable to equity holders of the Company of HK\$115 million was posted. The latter represents an increase of 128% from the corresponding period last year (2010: HK\$51 million). This net profit growth was mainly attributable to the secular uptrend in sales from Mainland Chinese tourists.

The Board recommends the payment of an interim dividend of HK\$0.035 (2010: HK\$0.012) per ordinary share to the Group’s shareholders for the six months ended 30th September 2011.

### *“CITY CHAIN” – WATCH RETAIL BUSINESS*

The watch retailing business accounted for approximately 52% of Group sales. Our large network consists of a range of multi-brand chain stores, namely “CITY CHAIN”, “CITY CHAIN PRIMO”, “PRIMO SWISS”, “CITHARA”, “C<sup>2</sup>” and “MOMENTS”. Each of these divisions is positioned to address a specific segment of consumers according to their tastes and shopping preferences. Moreover, specialty stores for retailing popular and sophisticated brands namely “SOLVIL ET TITUS”, “CYMA” and “SEIKO” have also been established to build and create brand identity.

Their success proves the Group’s capability not only as a mid-end watch retailer, but also one that can handle mid-high end brands.

For the Period under Review, revenue from the Group’s watch retail business increased by 30% to HK\$825.9 million (2010: HK\$633.1 million) and earnings before interest and tax (“EBIT”) increased by 141% to HK\$85.2 million (2010: HK\$35.3 million). The segment’s strong increase in turnover was mainly attributable to buoyant performances from our Hong Kong and Macau operations, the Group’s key geographic markets.

As of 30th September 2011, our “CITY CHAIN” network has 362 stores (2010: 353 stores) and their geographical breakdown is listed below:

	2011	2010	Change
Hong Kong & Macau	86	82	+4
PRC	95	84	+11
Southeast Asia	181	187	-6
Total	362	353	+9

### ***Hong Kong and Macau***

Hong Kong and Macau retail sales for the Period under Review reached HK\$507.5 million, up 44% from last year, with EBIT rising 149% to HK\$106.5 million.

Recent statistics published by the Hong Kong Tourism Board and the Macau Government Tourist Office, shows the aggregate number of Mainland tourist arrivals between January and September 2011 amounted to approximately 32.2 million, up 22% from the previous corresponding period. This underpins Hong Kong and Macau’s popularity as a must-go shopping and travel destination for Mainland Chinese. With over 70% of our Hong Kong and Macau watch retail sales derived from Mainland Chinese consumers, we are confident that our Group is well positioned to continue capitalising on this fast-rising tourism growth. Moreover, the strong revenue growth was achieved through the lowering of rental and other operating costs as a percentage of Group turnover. With our vigorous internal cost control initiatives, we expect this ratio to remain stable if not decline further in the coming years.

Effective promotion strategies for our popular house and agency brands have also contributed to the success of our Hong Kong and Macau division. Our “SOLVIL ET TITUS – TIME IS LOVE” marketing campaign was well received amongst the public and has catapulted our watch sales to new heights.

### ***Mainland China***

Having reconfigured and revamped our store networks to better meet local shopping preferences, our watch retail operations in Mainland China has accelerated in growth momentum, achieving a 28% increase in turnover to HK\$80.2 million. The increase in revenue was mainly attributable to the growing awareness of the “CITY CHAIN” brand and the effects of the ongoing Government stimulus measures to encourage domestic consumption. However, our Mainland China division is still at its developing stage and is lacking scale, hence losses were maintained at around HK\$18.8 million (2010: HK\$16.1 million).

The Group recognized the importance of gaining brand exposure through the use of effective signage in prime retail locations. To further strengthen the “CITY CHAIN” brand amongst Mainland Chinese consumers, we focused on growing our store networks in first-tier cities such as Beijing, Shanghai and Guangzhou. This marketing strategy will complement well with our reputable and long established brand image in Hong Kong and Macau, as Mainland Chinese visitors are assured the authenticity and quality of merchandise and services distributed through our vast retail network. As consumer spending continues to climb, we are confident that our sales in Mainland China will continue to rise.

### ***Southeast Asia***

Turnover from our Thailand, Singapore and Malaysia operations increased 10% to HK\$238.2 million. Due to 1) the reconfiguration of shops in Singapore, 2) the negative effect from the recent flood and political uncertainty in Thailand, and 3) the poor retail sentiment in these three regions brought on by the global economic crisis, EBIT was down 129% posting a loss of HK\$2.5 million. We have since implemented specific cost control measures, and are confident in attaining a recovery for the remaining half of the fiscal year 2011/2012.

### **“OPTICAL 88” – OPTICAL RETAIL BUSINESS**

The optical retailing business accounted for approximately 35% of Group sales. This division currently operates through four multi-brand chain stores, namely “OPTICAL 88”, “OPTICAL 88 PREMIER”, “SUNGLASS 88 L’ACCESSORI” and the newly introduced “EGG OPTICAL BOUTIQUE”.

For the Period under Review, revenue from the Group’s optical retail business increased by 22% to HK\$561 million (2010: HK\$458.7 million) and EBIT increased by 80% to HK\$55.6 million (2010: HK\$30.9 million).

As of 30th September 2011, “OPTICAL 88”’s network has 221 stores (2010: 210 stores) and the breakdown by geographic region is listed below:

	<b>2011</b>	2010	Change
Hong Kong & Macau	<b>100</b>	90	+10
PRC	<b>32</b>	30	+2
Southeast Asia	<b>89</b>	90	-1
<b>Total</b>	<b>221</b>	210	+11

## ***Hong Kong and Macau***

The Group's optical retail business in Hong Kong and Macau has too benefited from the influx of Mainland Chinese consumers during the Period under Review. Together with the continual support of our local customers, turnover recorded a growth of 25% to HK\$369.9 million whilst EBIT climbed to HK\$47.7 million, up 90% from the previous corresponding period.

To further extend and fortify our market share, a pilot lens and frame concept store – “EGG OPTICAL BOUTIQUE” – was established in July 2011. This new business offers a range of products within the mid-price range of HK\$500 to HK\$1,000, targeting young, trendy and fashionable consumers. Apart from satisfactory results, this pilot store further confirmed that target customers for “EGG OPTICAL BOUTIQUE” differ from those for “OPTICAL 88”. Therefore, we expect to roll out more “EGG OPTICAL BOUTIQUE” stores in Hong Kong this financial year and in Mainland China and South East Asia in the next financial year.

## ***Mainland China***

Our Mainland optical retail business in Guangdong Province recorded a respectable growth of 29% to HK\$42.2 million, with a negative EBIT of HK\$2.7 million, representing an improvement of 44% from last year.

With our sales network established in the area, the Group is now geared to expand into other first-tier cities in Mainland China. Our first “OPTICAL 88” store opened in Shanghai in October 2011 and aggressive regional store expansion will be carried out. As such, increased overheads will temporarily affect our profit levels; however, performance is expected to improve as the operations of new stores normalise.

## ***Southeast Asia***

As the nature of the optical business is more resistant to unfavorable economic changes, our operations in Thailand, Singapore and Malaysia continued to achieve a pleasing performance. This segment recorded a rise in sales of 15% to HK\$149 million and an EBIT of HK\$10.5 million was maintained at the same level as the corresponding period. We expect this business to remain stable in the coming year.

## ***WATCH ASSEMBLY AND WHOLESALE TRADING***

For the Period under Review, the watch assembly and wholesale trading business accounted for approximately 13% of Group sales, with revenue and EBIT recording HK\$199.6 million and HK\$47 million respectively (2010: HK\$168.8 million and HK\$38.2 million respectively).

Thong Sia Group, our wholly owned subsidiary, is the exclusive distributor of “SEIKO” watches in Hong Kong, Singapore and Malaysia. Following the brand's 130th anniversary, extensive marketing campaigns in Asia were rolled-out to promote the brand, as well as to introduce our new crossover series with FC Barcelona. Moreover, the recent advertisement featuring Asian pop stars, Sammi Cheng and Lee Hom Wang, were very successful and has further raised the “SEIKO” brand profile.

The newly established wholesale unit in Mainland China for the distribution of in-house brands “CYMA” and “PRONTO” has received positive response from our dealers. The recent appointment of “Liu Ye”, a popular Chinese actor, as the regional spokesperson for “CYMA” watches has proven successful, with significantly increased sales volume during the Period under Review.

## **PROSPECTS**

Looking ahead, the Group is cautiously optimistic on the outlook of Hong Kong and Macau’s retail business environment for the remaining fiscal year 2011/2012. News agency, Bloomberg, reported that Chinese consumers within the mid-income bracket of RMB60,000 per annum is expected to almost triple from 148 million in 2010 to 415 million in 2020. This huge number of consumers falls into our “CITY CHAIN” and “OPTICAL 88”’s target audience. Coupled with the fast paced growth of Mainland Chinese consumers visiting Hong Kong and Macau, the Group will continue to benefit from this uptrend.

Barring unforeseen circumstances, with our expansion focus in China fully underway, and with the effect of our well-received promotional campaigns, we expect to maintain a positive performance strengthening our pre-eminence as a leading watch and optical retailer in the region.

## **FINANCE**

The Group’s gearing ratio at balance sheet date was 22% (at 31st March 2011: 22%), which was calculated based on the Group’s net debt of HK\$234 million (at 31st March 2011: HK\$212 million) and shareholders’ funds of HK\$1,071 million (at 31st March 2011: HK\$982 million). The Group’s net debt was calculated based on the Group’s borrowings of HK\$479 million (at 31st March 2011: HK\$438 million) less the Group’s bank balances and cash of HK\$245 million (at 31st March 2011: HK\$226 million). Of the Group’s borrowings at balance sheet date, HK\$384 million (at 31st March 2011: HK\$370 million) were repayable within 12 months.

Of the Group’s borrowings, 5% (at 31st March 2011: 8%) 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 2011, 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 2011, the Group had 3,244 (at 30th September 2010: 3,070) employees.

## **DETAILS OF THE CHARGES ON GROUP ASSETS**

At 30th September 2011, certain of the Group's property, plant and equipment amounting to HK\$197 million (at 31st March 2011: HK\$199 million), investment property amounting to HK\$52 million (at 31st March 2011: HK\$52 million) and leasehold land amounting to HK\$30 million (31st March 2011: HK\$30 million) were pledged to secure banking facilities granted to the Group.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 5th January 2012 (Thursday) to 6th January 2012 (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 4th January 2012 (Wednesday). The interim dividend will be paid on 18th January 2012 (Wednesday).

## **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 2011, 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 then Chairman of the Board Mr. Wong Chong Po did not attend the annual general meeting of the Company held on 23rd August 2011 as he was not in Hong Kong. The respective Chairmen of the Audit Committee and the Remuneration Committee were present.

### **Audit Committee**

On 22nd June 2011 and 23rd November 2011, 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 2011 and for the six months ended 30th September 2011 respectively before they were presented to the Board of directors for approval.

### **Remuneration Committee**

The Remuneration Committee met on 18th March 2011 to 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 2011.

## **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](http://www.hkex.com.hk) under “Latest Listed Company Information” and the Company’s website at [www.stelux.com](http://www.stelux.com). The Company’s Interim Report for 2011/2012 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**

*Chairman and Chief Executive Officer*

Hong Kong, 29th November 2011

Directors of the Company as at the date hereof:

*Executive directors:*

Chumphol Kanjanapas (alias Joseph C. C. Wong) (*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*)