

STELUX Holdings International Limited

寶光實業(國際)有限公司*

<http://www.irasia.com/listco/hk/stelux>
(Incorporated in Bermuda with limited liability)

(Stock Code: 84)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31ST MARCH 2004

The Board of Directors of the Company have pleasure in announcing the audited results of the Group for the year ended 31st March 2004 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2004

	2004 HK\$'000	(As restated) 2003 HK\$'000
Turnover (Note 2)	1,218,024	1,198,122
Cost of sales	(441,344)	(455,976)
Gross profit	776,680	742,146
Other income	18,342	20,386
Selling expenses	(516,906)	(505,471)
General and administrative expenses	(156,559)	(156,592)
Other operating expenses	(60,599)	(71,491)
Write-back of/(deficit) on revaluation of investment properties	25,500	(33,230)
Write-back of provision/(impairment) of land and buildings	2,800	(4,800)
Compensation received from arbitration (Note 3)	30,080	–
Gain on disposal of land and buildings	–	110
Operating profit/(loss) before financing (Note 3)	119,338	(8,942)
Finance costs	(27,120)	(29,040)
Profit/(loss) before taxation	92,218	(37,982)
Taxation (charge)/credit (Note 4)	(7,556)	5,908
Profit/(loss) after taxation	84,662	(32,074)
Minority interests	–	–
Profit/(loss) attributable to shareholders	84,662	(32,074)
Dividend (Note 5)	18,867	–
	HK cents	HK cents
Earnings/(loss) per share (Note 6)		
– basic	9.01	(3.43)
– diluted	9.01	N/A

* For identification purpose only

Notes:–

1. Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). They have been prepared under the historical cost convention as modified by the revaluation of investment properties and marketable securities.

In the current year, the Group adopted the revised Statement of Standard Accounting Practice No. 12 (“SSAP 12”) “Income Taxes” issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003.

Accordingly, opening accumulated losses at 1st April 2003 have been reduced by HK\$8,020,000 and those at 1st April 2002 have been increased by HK\$1,192,000, which represent the unprovided net deferred tax assets and liabilities. This change has resulted in an increase in deferred tax assets and deferred tax liabilities at 31st March 2003 by HK\$25,019,000 and HK\$16,999,000, respectively. The loss for the year ended 31st March 2003 has been reduced by HK\$9,142,000.

2. Segment information

Primary reporting format – business segments

	2004				
	Investment HK\$'000	Property HK\$'000	Retail and trading HK\$'000	Eliminations HK\$'000	Group HK\$'000
Turnover	1,113	48,097	1,179,551	(10,737)	1,218,024
Segment results	1,113	90,634	60,033		151,780
Net corporate expenses					(32,442)
Operating profit before financing					119,338
Finance costs					(27,120)
Profit before taxation					92,218
Taxation charge					(7,556)
Profit after taxation					84,662
Minority interests					–
Profit attributable to shareholders					84,662
	2003 (As restated)				
	Investment HK\$'000	Property HK\$'000	Retail and trading HK\$'000	Eliminations HK\$'000	Group HK\$'000
Turnover	2,042	50,623	1,156,480	(11,023)	1,198,122
Segment results	2,042	(16,247)	31,539		17,334
Net corporate expenses					(26,276)
Operating loss before financing					(8,942)
Finance costs					(29,040)
Loss before taxation					(37,982)
Taxation credit					5,908
Loss after taxation					(32,074)
Minority interests					–
Loss attributable to shareholders					(32,074)

Secondary reporting format – geographical segments

	2004		2003 (As restated)	
	Turnover HK\$'000	Segment results HK\$'000	Turnover HK\$'000	Segment results HK\$'000
Hong Kong	665,768	88,019	702,719	(40,346)
South East and Far East Asia	330,524	42,187	278,482	19,245
Europe	185,737	24,804	197,911	37,364
North America	13,624	(2,803)	9,213	490
Mainland China	22,371	(427)	9,797	581
	<u>1,218,024</u>	<u>151,780</u>	<u>1,198,122</u>	<u>17,334</u>

3. Operating profit/(loss) before financing

	(As restated)	
	2004 HK\$'000	2003 HK\$'000
Operating profit/(loss) before financing is stated after charging:		
Depreciation		
Owned fixed assets		49,633
Leased fixed assets		649
Amortisation of trademarks and patents		2,405
Loss on disposal of fixed assets		221
Legal expenses written off		–
		<u>10,842</u>
and after crediting:		
Dividend income from unlisted investments		1,084
Interest income		7,033
		<u>6,988</u>

As disclosed in note 26 (d) to the 2003 Annual Accounts, the Group was entitled to counter-claim liquidated damages and other costs or losses from the contractor for Stelux House. The arbitrator awarded in favour of the Group in March 2004 and compensation received from the contractor of HK\$30 million was recognised this year.

4. Taxation (charge)/credit

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profit for the year less relief for available tax losses. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation (charged)/credited to the consolidated profit and loss account represents:

	(As restated)	
	2004 HK\$'000	2003 HK\$'000
Current taxation		
Hong Kong profits tax	(70)	(62)
Overseas taxation	(3,875)	(3,249)
(Under)/over provisions in respect of prior years	(1,340)	77
	<u>(5,285)</u>	<u>(3,234)</u>
Deferred taxation	<u>(2,271)</u>	<u>9,142</u>
Taxation (charge)/credit	<u>(7,556)</u>	<u>5,908</u>

5. Dividend

	2004 HK\$'000	2003 HK\$'000
Final, proposed, of HK\$0.02 (2003: Nil) per ordinary share	<u>18,867</u>	<u>–</u>

At a meeting held on 15th July 2004, the directors proposed a final dividend of HK\$0.02 (2003: Nil) per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st March 2005.

6. Earnings/(loss) per share

The calculations of basic and diluted earnings/(loss) per share are based on the Group's profit attributable to shareholders of HK\$84,662,000 (2003: Loss attributable to shareholders of HK\$32,074,000 as restated).

The basic earnings per share is based on the weighted average number of 939,566,798 shares (2003: 936,340,023 shares) in issue during the year. The diluted earnings per share is based on 939,630,798 shares which is the weighted average number of shares in issue during the year plus the weighted average number of 64,000 shares deemed to be issued at no consideration if all outstanding options had been exercised.

No diluted loss per share was presented for the year ended 31st March 2003 as the exercise of the Group's outstanding share options would have an anti-dilutive effect on the loss per share.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF GROUP OPERATIONS

The Group reported a slightly higher turnover this year of HK\$1,218 million compared to HK\$1,198 million last year. This year the Group is pleased to announce a profit attributable to shareholders of HK\$85 million compared to a loss last year of HK\$32 million representing a turnaround from last year.

Retail and Trading

This Division includes the Group's 3 core retail chains, "City Chain", "Optical 88", "Hipo.fant" and its export trading arm. Although, this Division's performance was hard hit by SARS in the first quarter, our operations in Hong Kong and region wide recovered quickly in the latter six months of the year. Our Hong Kong operations, in particular benefited from the mainland's solo visitor policy. An advertising campaign for "Solvil et Titus" was successfully launched during the year to strengthen the brand's image. As a result, we saw increased watch sales and consistently higher margins.

As of 30th June 2004, the Group was operating 454 shops and counters, an increase of 53 from the previous year. These additional shops and counters were opened in Thailand, Singapore, Malaysia and mainland China.

City Chain

City Chain Hong Kong doubled profits, reporting profits of nearly HK\$21 million compared to HK\$10 million last year.

Overall City Chain operations in Thailand, Singapore, Malaysia, Macau and Taiwan recorded profits of HK\$30 million doubling the previous year's profits of approximately HK\$15 million. Operations in these countries also generally reported improved turnovers compared to last year, with Malaysia and Thailand reporting the largest increases in turnover of 45% and 22% respectively.

Optical 88

Stronger demand in the latter 6 months of the year enabled our operations in Hong Kong and the rest of Asia to generally report increases in turnover. New shops also added to increased turnovers. Singapore and Thailand reported increased turnovers from the previous year of 19% and 34% respectively.

Our Hong Kong operations reported profits of nearly HK\$6 million this year compared to breakeven results last year. Likewise, operations in the rest of Asia excluding Mainland China, recorded profits of HK\$5 million compared to HK\$4 million last year. The positive results were largely attributable to steadily increasing gross margins.

Hipo.fant

It continued to be a tough year for Hipo.fant. Although our operations in Hong Kong and Asia managed to report a slight 2% increase in turnover to about HK\$81 million up from HK\$79 million the previous year, losses widened to HK\$15 million this year. Despite the recovery in the general retail market, our customers continued to look for discounts. This impacted on gross margins. Six non-performing shops have been shut upon their lease expirations and we will continue to close non-performing shops upon their lease expirations. During the year, counters (including through licensing arrangements) were opened in major cities in mainland China.

Export and Trading

Our export subsidiary saw an increase in turnover of 16%, from HK\$98 million to HK\$114 million this year. A profit of nearly HK\$14 million was reported compared to a profit of HK\$6 million last year. The weak US currency and special promotional projects with our European distributors boosted sales. Some markets like Japan and Korea performed better than expected.

Our UK trading subsidiary saw a drop in turnover of 10% from last year of HK\$110 million to HK\$100 million this year. Profits were down to HK\$2 million this year compared to HK\$7 million last year.

For cost control reasons, we closed our USA subsidiary during the year. Sales to the USA are now made through our export arm in Hong Kong.

As for Universal Geneve, there will be a shift in brand positioning and product development. There are plans to concentrate future product development on automatic/mechanical watches. Therefore, in the current year, a provision of HK\$7 million has been made for lower priced inventory. This has increased losses for the year to HK\$13 million compared to about HK\$5 million last year.

Property Investment

Stelux House continues to contribute stable income to the Group. Rental income for the year was approximately HK\$30 million (2003: HK\$33 million). The average floor area occupied during the year was 85.49% (2003: 92.15%).

Surplus on revaluation of investment properties was HK\$26 million compared to the previous year's deficit of HK\$33 million.

Compensation of HK\$30 million relating to the arbitration with respect to the construction of Stelux House was recognised this year. An additional HK\$18 million has been paid by the contractor as reimbursement towards the rectification costs for the exterior cladding of Stelux House.

Prospects

Given the better trading environment in many of the countries which we operate in and based on the Group's performance in the first quarter of the financial year 2004/2005, we expect to see positive results in the next financial year. However, with the strong recovery, we also expect to see adjustment pressures on shop rentals and other costs and this will impact on margins.

In the next 6 months, material investments will be made as we continue to expand our operations in Thailand, Malaysia, Singapore and mainland China. It is expected that funds for such investments will come from internal funds and bank borrowings.

FINANCE

The Group's bank borrowings at balance sheet date were HK\$503 million (2003: HK\$529 million), out of which, HK\$253 million (2003: HK\$264 million) were repayable within 12 months. The Group's gearing ratio at balance sheet date was 0.61 (2003: 0.74 as restated), which was calculated based on the Group's bank borrowings and shareholders' funds of HK\$820 million (2003: HK\$718 million as restated).

Of the Group's bank borrowings, 4% (2003: 3%) 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.

CAPITAL STRUCTURE OF THE GROUP

There was no change in the capital structure of the Group during the year except that options of 7,000,000 shares of the Company were exercised at HK\$0.15 per share. In addition, options of 1,000,000 shares of the Company have lapsed during the year. Details of outstanding share options will be disclosed in the Group's Annual Report 2004.

CHANGES IN THE COMPOSITION OF THE GROUP DURING THE YEAR

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

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 31st March 2004, the Group had 2,048 (2003: 1,773) employees.

DETAILS OF THE CHARGES ON GROUP ASSETS

At 31st March 2004, certain of the Group's land and buildings amounting to HK\$175 million (2003: HK\$169 million), investment properties amounting to HK\$557 million (2003: HK\$532 million), bank deposits amounting to HK\$2 million (2003: HK\$2 million) and other debtors amounting to HK\$50 million (2003: HK\$50 million) were pledged to secure banking facilities granted to the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, there was no purchase, sale or redemption by the Company, or any of its subsidiary companies, of the Company's listed securities.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year except that the independent non-executive directors of the Company are not appointed for a specific term but subject to retirement by rotation in accordance with the Company's Bye-laws.

DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

A detailed announcement of annual results of the Group for the year ended 31st March 2004 containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange (<http://www.hkex.com.hk>) in due course.

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

HONG KONG, 15th July 2004