

STELLUX Holdings International Limited

(incorporated in Bermuda with limited liability)

(<http://www.irasia.com/listco/hk/stellux>)

ANNOUNCEMENT OF RESULTS

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2003

RESULTS

The Directors are pleased to report the unaudited consolidated results of the Group for the six months ended 30th September 2003.

		Unaudited Six months ended 30th September	
		2003	2002
			(Restated)
	Note	HK\$'000	HK\$'000
Turnover	2	559,907	572,210
Cost of sales		(205,467)	(219,444)
Gross profit		354,440	352,766
Other income		8,337	10,681
Selling expenses		(247,595)	(260,068)
General and administrative expenses		(72,249)	(69,712)
Other operating expenses		(22,602)	(22,294)
Operating profit before financing	3	20,331	11,373
Finance costs		(14,155)	(15,633)
Profit/(loss) before taxation		6,176	(4,260)
Taxation	4	(3,188)	(900)
Profit/(loss) after taxation		2,988	(5,160)
Minority interests		—	—
Profit/(loss) attributable to shareholders		2,988	(5,160)
Earnings/(loss) per share	6	HK cents	HK cents
– basic		0.32	(0.55)
– diluted		0.32	N/A

NOTES:–

1. Principal accounting policies

These unaudited consolidated interim accounts (“interim accounts”) are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25, “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants (“HKSA”) and Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited.

These interim accounts should be read in conjunction with the 2003 Annual Report.

The accounting policies adopted in the preparation of these interim accounts are consistent with those used in the annual accounts for the year ended 31st March 2003 except that the Group has changed certain of its accounting policies following the adoption of SSAP 12 (revised) “Income Taxes” and SSAP 34 (revised) “Employee Benefits” issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2003.

The adoption of SSAP 34 (revised) has had no material effect to the results of the Group for the current period and details of the change in accounting policy will be given in the 2004 Annual Report.

The effect of adoption of SSAP 12 (revised) is set out below:

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an assets was expected to be payable or recoverable in the foreseeable future. The adoption of the SSAP 12 (revised) represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

Opening retained earnings at 1st April 2003 has been increased by HK\$5,030,000 and opening retained earnings at 1st April 2002 has been reduced by HK\$823,000, 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\$21,961,000 and HK\$16,931,000, respectively. The loss for the six months ended 30th September 2002 has been increased by HK\$394,000.

2. Segment information

Primary reporting format – business segments

	Unaudited				
	Six months ended 30th September 2003				
	Investment	Property	Retail and	Eliminations	Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	trading	<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>
Turnover	12	24,493	540,772	(5,370)	559,907
Segment results	12	11,059	20,984		32,055
Net corporate expenses					(11,724)
Operating profit before financing					20,331
Finance costs					(14,155)
Profit before taxation					6,176
Taxation					(3,188)
Profit after taxation					2,988
Minority interests					–
Profit attributable to shareholders					2,988

Unaudited (Restated)
Six months ended 30th September 2002

	Investment <i>HK\$'000</i>	Property <i>HK\$'000</i>	Retail and trading <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Group <i>HK\$'000</i>
Turnover	56	25,400	552,379	(5,625)	572,210
Segment results	56	13,816	12,871		26,743
Net corporate expenses					(15,370)
Operating profit before financing					11,373
Finance costs					(15,633)
Loss before taxation					(4,260)
Taxation					(900)
Loss after taxation					(5,160)
Minority interests					-
Loss attributable to shareholders					(5,160)

Secondary reporting format – geographical segments

	Turnover Unaudited Six months ended 30th September		Segment results Unaudited Six months ended 30th September	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	300,000	337,113	(3,172)	(2,738)
South East and Far East Asia	143,867	128,487	14,599	10,157
Europe	101,712	94,516	20,316	19,176
North America	6,944	6,496	(57)	(299)
PRC Mainland	7,384	5,598	369	447
	559,907	572,210	32,055	26,743

3. Operating profit before financing

Unaudited
Six months ended
30th September
2003 **2002**
HK\$'000 *HK\$'000*

Operating profit before financing is stated after charging/(crediting):

Depreciation		
Owned fixed assets	22,775	25,600
Leased fixed assets	1,291	280
Amortisation of trademarks and patents	1,056	1,225
Loss/(gain) on disposal of fixed assets	129	(62)
Net provision for stock obsolescence and stocks written off	689	1,875
Provision for doubtful debts and bad debts written off	3,261	2,849
	<u> </u>	<u> </u>

4. Taxation

No Hong Kong profits tax has been provided as the Group has sufficient tax losses brought forward to offset the assessable profits for the period (2002: nil). Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

Unaudited
Six months ended
30th September
2003 **2002**
HK\$'000 *HK\$'000*
(Restated)

Current taxation		
Overseas profits tax	(1,323)	(506)
Deferred taxation relating to the origination and reversal of temporary differences	(1,865)	(394)
	<u> </u>	<u> </u>
	<u>(3,188)</u>	<u>(900)</u>

5. Interim dividends

The Directors do not recommend the payment of an interim dividend for the period (2002: nil).

6. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the Group's profit attributable to shareholders of HK\$2,988,000 (2002: loss of HK\$5,160,000 (restated)) and on the weighted average number of 936,340,023 shares (2002: 936,340,023 shares) in issue during the period.

The calculation of diluted earnings per share is based on profit attributable to shareholders of HK\$2,988,000 (2002: loss of HK\$5,160,000 (restated)) and on the weighted average number of 936,340,023 shares in issue during the period plus the weighted average number of 2,146,341 shares deemed to be issued at no consideration if all outstanding options had been exercised.

7. Contingent liabilities

	Unaudited 30th September 2003 <i>HK\$'000</i>	Audited 31st March 2003 <i>HK\$'000</i>
(a) Bills discounted	<u>7,475</u>	<u>7,262</u>
(b) The status of the Group's arbitration in respect of the claims by the contractor for the Stelux House development was fully disclosed in the Annual Report 2003. We are awaiting delivery of the award.		

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF GROUP OPERATIONS

The Group reported a small profit attributable to shareholders of HK\$3 million for the six months ended 30th September 2003 compared to a loss of approximately HK\$5 million during the same period last year.

Retail and Trading Division

This Division which includes the Group's 3 core retail chains and its export arm reported a marked improvement in profits of HK\$12 million compared to HK\$3 million during the corresponding period last year. Turnover was maintained at about last year's level at HK\$550 million.

City Chain

City Chain operations in Hong Kong and regionally reported improved results with a profit of HK\$10 million compared to a profit of HK\$2 million last year. This was due to several factors like favourable currency translations and successful cost cutting measures. Turnover was down 6% compared to the same period last year due to the impact of SARS.

In December 2003, an advertising campaign for "Solvil et Titus" featuring a key Hong Kong artiste, Sammi Cheng was launched in Hong Kong and other South East Asian countries to strengthen the brand's awareness.

A lot of work has been done during the last 6 months in preparation for expansion into the China market. Print and outdoor advertising for "Solvil et Titus" featuring the same local artiste to build the brand has been launched in Shanghai and Guangdong Province. In addition to over 35 watch brand counters located in key cities in China, there are 3 City Chain shops in Guangzhou.

Optical 88

Notwithstanding SARS, overall Optical 88 operations in Hong Kong and in the rest of Asia, managed to hold ground during a very uncertain past 6 months, reporting only a 4% fall in turnover compared to the corresponding period last year and further managing to stay in the black with a small profit.

Hipo.fant

Due to SARS, Hipo.fant operations in Hong Kong were hardest hit in April with a sharp fall in turnover compared to the same time last year. Turnover picked up considerably, subsequently with our Hong Kong operations managing to maintain its sales turnover for the six months under review. However, continued discounting due to poor sentiment contributed to a loss which widened by about HK\$1 million from last year. The new brand image, changed product mixes and product lines have been well received by customers. Together with the recent more upbeat mood in the territory, we are beginning to see improvements in our margins and turnover.

During the last 6 months, Hipo.fant counters have been set up in Shanghai, Shenzhen and Guangzhou. We shall continue to look for opportunities in China through either franchising or direct operations.

Watch Assembly, Export and Trading

Turnover was up 10% from the same period last year and profits increased by 22% to HK\$5 million. The weak US dollar and the end to the uncertainty surrounding the Iraqi war boosted turnover and profits.

Our USA operations are undergoing restructuring with the closure of the subsidiary. Future sales to the USA will be handled directly by our Hong Kong export subsidiary.

Property Investment

Stelux House is achieving a letting occupancy of 92%. Leases due for renewal will be renewed at prevailing market rentals.

PROSPECTS

Over the last few months, the feel good factor seems to have returned to Hong Kong. Provided this is sustainable, we expect our Hong Kong operations to report improved performances for the current financial year (2003/2004).

In the coming 6 months, material investments will be made – Operations in China for all 3 retail chains will continue to expand either through the setting up of shops or counters in key department stores. Expansion in Thailand, Malaysia and Singapore will continue. It is expected that funds for such investments will come from internal funds or bank borrowings.

FINANCE

The Group's bank borrowings at balance sheet date were HK\$523 million (at 31st March 2003: HK\$529 million), out of which, HK\$266 million (at 31st March 2003: HK\$264 million) were repayable within 12 months. The Group's gearing ratio at balance sheet date was 0.72 (at 31st March 2003: 0.74), and was calculated based on the Group's bank borrowings and shareholders' funds of HK\$726 million (at 31st March 2003: HK\$715 million).

As at balance sheet date, 3% (at 31st March 2003: 3%) of the Group's bank borrowings were denominated in foreign currencies. The Group's bank borrowings 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 period except that 1,000,000 share options were exercised by an employee on 25th September 2003. Closing price of the Company's shares immediately prior to the exercise date was HK\$0.30. The share certificates were approved and issued on 14th October 2003.

CHANGES IN THE COMPOSITION OF THE GROUP DURING THE INTERIM PERIOD

There were no material acquisitions and disposals of subsidiary companies and there were no material acquisitions of associated companies during the interim period. There was no change in the composition of the Group during the interim period.

SEGMENTAL INFORMATION

An analysis of the Group's segment turnover and segment results by business activities and markets is shown in note 2 to the interim accounts.

NUMBER AND REMUNERATION OF EMPLOYEES, REMUNERATION POLICIES, BONUS AND SHARE OPTION SCHEMES 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 2003, the Group had 1,915 (at 30th September 2002: 1,773) employees. Details of outstanding share options were disclosed in the Group's 2003 Annual Report and the above section, "Capital Structure of the Group".

DETAILS OF THE CHARGES ON GROUP ASSETS

At 30th September 2003, certain of the Group's land and buildings amounting to HK\$177,227,000 (at 31st March 2003: HK\$169,155,000), investment properties amounting to HK\$531,500,000 (at 31st March 2003: HK\$531,500,000), bank deposits amounting to HK\$2,023,000 (at 31st March 2003: HK\$2,014,000) and other debtor of HK\$50,000,000 (at 31st March 2003: HK\$50,000,000) 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.

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 ("Listing Rules") on the Stock Exchange of Hong Kong Limited ("Stock Exchange") throughout the period except that the independent non-executive directors of the Company are not appointed for a specific term.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim report for the six months ended 30th September 2003 with the directors.

DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

A detailed announcement of the interim results of the Group for the six months ended 30th September 2003 containing all the information required by paragraph 46(1) to 46(6) 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 Managing Director

Hong Kong, 18th December 2003