# STELUX Holdings International Limited

*Incorporated in Bermuda with limited liability*

*http://www.stelux.com*

**Stock Code: 84**

INTERIM REPORT 2015/2016

website: www.stelux.com

When you reap the harvest of your land, do not reap to the very edges of your field or gather the gleanings of your harvest. Do not go over your vineyard a second time or pick up the grapes that have fallen. Leave them for the poor and the foreigner. I am the Lord your God.

Leviticus 19:9-10

## INTERIM REPORT
## FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2015

The directors of Stelux Holdings International Limited (the "Company") report the interim results and financial information of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 September 2015. The condensed consolidated results of the Group for the six months ended 30 September 2015, the condensed consolidated balance sheet as at 30 September 2015, the condensed consolidated cash flow statement and the condensed consolidated statement of changes in equity of the Group for the six months ended 30 September 2015, all of which are unaudited, along with the relevant explanatory notes, are set out below.

## CONDENSED CONSOLIDATED INCOME STATEMENT
## FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2015

| | | **Unaudited Six months ended 30 September** | |
|---|---|---|---|
| | | **2015** | 2014 |
| | *Note* | ***HK$'000*** | *HK$'000* |
| Revenues | *4,5* | **1,786,204** | 2,000,349 |
| Cost of sales | | **(718,190)** | (768,750) |
| Gross profit | | **1,068,014** | 1,231,599 |
| Other (losses)/gains, net | *6* | **(8,240)** | 2,300 |
| Other income | *7* | **15,816** | 14,473 |
| Selling expenses | | **(825,997)** | (865,430) |
| General and administrative expenses | | **(218,806)** | (212,283) |
| Other operating expenses | | **(11,208)** | (14,541) |
| Operating profit | | **19,579** | 156,118 |
| Finance costs | | **(43,173)** | (16,630) |
| Share of loss of an associate | *13* | **–** | (913) |
| (Loss)/profit before income tax | *8* | **(23,594)** | 138,575 |
| Income tax expense | *9* | **(9,440)** | (33,157) |
| (Loss)/profit for the period | | **(33,034)** | 105,418 |
| Attributable to: | | | |
| Equity holders of the Company | | **(33,079)** | 105,196 |
| Non-controlling interests | | **45** | 222 |
| (Loss)/profit for the period | | **(33,034)** | 105,418 |
| Dividends | *10* | **–** | 20,929 |
| | | ***HK cents*** | *HK cents* |
| (Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company | *11* | | |
| – Basic | | **(3.16)** | 10.05 |
| – Diluted | | **(3.16)** | 9.41 |

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2015

| | Unaudited Six months ended 30 September | |
|---|---|---|
| | **2015** | 2014 |
| | ***HK$'000*** | *HK$'000* |
| (Loss)/profit for the period | **(33,034)** | 105,418 |
| Other comprehensive (loss)/income: | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences | **(57,398)** | 19,182 |
| Revaluation of available-for-sale financial assets | **(63)** | – |
| Other comprehensive (loss)/income for the period, net of tax | **(57,461)** | 19,182 |
| Total comprehensive (loss)/income for the period | **(90,495)** | 124,600 |
| Attributable to: | | |
| Equity holders of the Company | **(89,602)** | 124,454 |
| Non-controlling interests | **(893)** | 146 |
| Total comprehensive (loss)/income for the period | **(90,495)** | 124,600 |

## CONDENSED CONSOLIDATED BALANCE SHEET
## AS AT 30 SEPTEMBER 2015

| | Note | Unaudited 30 September 2015 HK$'000 | 31 March 2015 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Non-current assets | | | |
| Property, plant and equipment | 12 | **451,488** | 460,463 |
| Prepayment of lease premium | 12 | **31,637** | 40,242 |
| Investment in an associate | 13 | **–** | 61,329 |
| Intangible assets | 12 | **130,527** | 60,664 |
| Deferred tax assets | | **66,804** | 70,692 |
| Available-for-sale financial assets | | **12,589** | 12,652 |
| Debtors, deposits and prepayments | 15 | **176,613** | 166,752 |
| | | **869,658** | 872,794 |
| Current assets | | | |
| Stocks | 14 | **1,217,936** | 1,327,732 |
| Debtors, deposits and prepayments | 15 | **419,118** | 430,743 |
| Bank balances and cash | | **457,114** | 460,143 |
| | | **2,094,168** | 2,218,618 |
| Total assets | | **2,963,826** | 3,091,412 |
| **EQUITY** | | | |
| Capital and reserves attributable to the equity holders of the Company | | | |
| Share capital | 16 | **104,647** | 104,647 |
| Reserves | | **1,241,766** | 1,341,833 |
| Shareholders' funds | | **1,346,413** | 1,446,480 |
| Non-controlling interests | | **6,457** | 7,350 |
| Total equity | | **1,352,870** | 1,453,830 |
| **LIABILITIES** | | | |
| Non-current liabilities | | | |
| Deferred tax liabilities | | **11,938** | 2,299 |
| Creditors and accruals | 17 | **11,083** | – |
| Borrowings | 18 | **41,933** | 52,068 |
| Convertible bonds | 19 | **412,020** | 380,753 |
| | | **476,974** | 435,120 |
| Current liabilities | | | |
| Creditors and accruals | 17 | **655,919** | 601,488 |
| Income tax payable | | **20,304** | 21,249 |
| Borrowings | 18 | **457,759** | 579,725 |
| | | **1,133,982** | 1,202,462 |
| Total liabilities | | **1,610,956** | 1,637,582 |
| Total equity and liabilities | | **2,963,826** | 3,091,412 |

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT
## FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2015

| | Note | Unaudited Six months ended 30 September **2015** ***HK$'000*** | 2014 *HK$'000* |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Cash generated from operations | | **201,732** | 95,423 |
| Interest paid | | **(4,884)** | (4,438) |
| Hong Kong profits tax paid | | **(237)** | (1,767) |
| Overseas profits tax paid | | **(10,300)** | (10,454) |
| Overseas profits tax refunded | | **644** | 422 |
| Net cash generated from operating activities | | **186,955** | 79,186 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | **(56,278)** | (45,964) |
| Proceeds from sale of property, plant and equipment | | **1,104** | 484 |
| Investment in an associate | | **–** | (30,483) |
| Acquisition of a subsidiary | *22* | **7,871** | – |
| Disposal of prepayment of lease premium | | **1,551** | – |
| Interest received | | **957** | 598 |
| Net cash used in investing activities | | **(44,795)** | (75,365) |
| Cash flows from financing activities | | | |
| Drawdown of bank loans | | **351,218** | 478,713 |
| Repayment of bank loans | | **(479,782)** | (492,209) |
| Capital element of finance lease payments | | **(36)** | (124) |
| Dividends paid to the Company's shareholders | | **(10,465)** | (38,719) |
| Dividends paid to non-controlling interests | | **–** | (114) |
| Interest paid on convertible bonds | | **(6,493)** | (7,040) |
| Net cash used in financing activities | | **(145,558)** | (59,493) |
| Net decrease in cash and cash equivalents | | **(3,398)** | (55,672) |
| Cash and cash equivalents at 1 April | | **460,143** | 457,683 |
| Effect of foreign exchange rate changes | | **369** | 17,945 |
| Cash and cash equivalents at 30 September | | **457,114** | 419,956 |
| Analysis of the balance of cash and cash equivalents: | | | |
| Cash and bank balances | | **457,114** | 419,956 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2015

| | Unaudited | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Attributable to equity holders of the Company | | | | | | | | |
| | Share capital | Share premium | Revaluation reserve | Exchange reserve | Convertible bonds reserve | Retained earnings | Total | Non-controlling interest | Total equity |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 April 2014 | 104,647 | 1,977 | 13,080 | 15,240 | 77,090 | 1,246,304 | 1,458,338 | 7,483 | 1,465,821 |
| Profit for the period | – | – | – | – | – | 105,196 | 105,196 | 222 | 105,418 |
| Other comprehensive income: | | | | | | | | | |
| Exchange differences | – | – | – | 19,258 | – | – | 19,258 | (76) | 19,182 |
| Total comprehensive income for the period ended 30 September 2014 | – | – | – | 19,258 | – | 105,196 | 124,454 | 146 | 124,600 |
| Dividends paid | – | – | – | – | – | (38,719) | (38,719) | (114) | (38,833) |
| At 30 September 2014 | 104,647 | 1,977 | 13,080 | 34,498 | 77,090 | 1,312,781 | 1,544,073 | 7,515 | 1,551,588 |
| **At 1 April 2015** | **104,647** | **1,977** | **10,401** | **(26,046)** | **77,090** | **1,278,411** | **1,446,480** | **7,350** | **1,453,830** |
| **(Loss)/profit for the period** | **–** | **–** | **–** | **–** | **–** | **(33,079)** | **(33,079)** | **45** | **(33,034)** |
| **Other comprehensive loss:** | | | | | | | | | |
| **Exchange differences** | **–** | **–** | **–** | **(56,460)** | **–** | **–** | **(56,460)** | **(938)** | **(57,398)** |
| **Revaluation of available-for-sale financial assets** | **–** | **–** | **(63)** | **–** | **–** | **–** | **(63)** | **–** | **(63)** |
| **Total comprehensive loss for the period ended 30 September 2015** | **–** | **–** | **(63)** | **(56,460)** | **–** | **(33,079)** | **(89,602)** | **(893)** | **(90,495)** |
| **Dividends paid** | **–** | **–** | **–** | **–** | **–** | **(10,465)** | **(10,465)** | **–** | **(10,465)** |
| **At 30 September 2015** | **104,647** | **1,977** | **10,338** | **(82,506)** | **77,090** | **1,234,867** | **1,346,413** | **6,457** | **1,352,870** |

# 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 2015 annual financial statements, which have been prepared in accordance with HKFRS.

Except as mentioned below, 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 31 March 2015.

The following amendments to standards and interpretations are mandatory for accounting periods beginning on or after 1 April 2015. The adoption of these amendments to standards and interpretations does not have any significant impact to the results and financial position of the Group:

| | |
|---|---|
| HKAS19 (2011) (Amendment) | Defined benefit plans: Employee contributions |
| Annual improvements project | Annual improvements 2010-2012 cycle |
| Annual improvements project | Annual improvements 2011-2013 cycle |

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 31 March 2016.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

## 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 interim consolidated 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 2015.

## 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 condensed interim 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 2015.

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 and liability components of convertible bonds are measured at fair value and are classified as level 3.

There were no movements in the available-for-sale financial assets during the period.

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

The Group's level 3 instruments are determined by using valuation techniques including discount cash flow analysis, with reference to inputs such as dividend stream, discount rates and other specific input relevant to those particular financial instruments.

There were no changes in valuation techniques during the period.

### 3.3 Group's valuation process

The Group's finance department reviews the valuations of the Group's financial instruments that are stated at fair value for financial reporting purposes, including level 3 fair values. These valuation results are then reported to the chief financial officer and group senior management for discussions in relation to the valuation processes and the reasonableness of the valuation results.

### 3.4 Fair value of financial assets and liabilities measured at amortised cost

The carrying amounts of the Group's financial assets including cash and cash equivalents, deposits in approved financial institutions and debtors and financial liabilities including creditors and short-term borrowings, approximate their fair values due to their short maturities.

## 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, the executive directors assesses the performance of the Group's 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 net corporate expenses.

| | Six months ended 30 September 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Watch retail | | Optical retail | | | |
| | Hong Kong, Macau and Mainland China *HK$'000* | Rest of Asia *HK$'000* | Hong Kong, Macau and Mainland China *HK$'000* | Rest of Asia *HK$'000* | Wholesale trading *HK$'000* | Group Total *HK$'000* |
| **Revenues** | | | | | | |
| **Gross segment** | **759,817** | **198,103** | **544,678** | **114,927** | **328,810** | **1,946,335** |
| **Inter-segment** | **–** | **–** | **–** | **–** | **(160,131)** | **(160,131)** |
| | **759,817** | **198,103** | **544,678** | **114,927** | **168,679** | **1,786,204** |
| **Segment results** | **39,308** | **(23,622)** | **26,120** | **(11,534)** | **36,662** | **66,934** |
| **Net corporate expenses** | | | | | | **(47,355)** |
| **Operating profit** | | | | | | **19,579** |
| **Finance costs** | | | | | | **(43,173)** |
| **Loss before income tax** | | | | | | **(23,594)** |
| **Income tax expense** | | | | | | **(9,440)** |
| **Loss after income tax** | | | | | | **(33,034)** |

## 4. SEGMENT INFORMATION (Continued)

| | Six months ended 30 September 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Watch retail | | Optical retail | | | |
| | Hong Kong, Macau and Mainland China *HK$'000* | Rest of Asia *HK$'000* | Hong Kong, Macau and Mainland China *HK$'000* | Rest of Asia *HK$'000* | Wholesale trading *HK$'000* | Group Total *HK$'000* |
| Revenues | | | | | | |
| Gross segment | 855,187 | 234,897 | 562,004 | 139,729 | 539,867 | 2,331,684 |
| Inter-segment | – | – | – | – | (331,335) | (331,335) |
| | 855,187 | 234,897 | 562,004 | 139,729 | 208,532 | 2,000,349 |
| Segment results | 127,498 | (12,467) | 36,236 | (4,034) | 59,134 | 206,367 |
| Net corporate expenses | | | | | | (50,249) |
| Operating profit | | | | | | 156,118 |
| Finance costs | | | | | | (16,630) |
| Share of loss of an associate | | | | | | (913) |
| Profit before income tax | | | | | | 138,575 |
| Income tax expense | | | | | | (33,157) |
| Profit after income tax | | | | | | 105,418 |

There have been no material changes in total assets and total liabilities from the amount disclosed in the last annual financial statements.

## 5. REVENUES

| | **Six months ended 30 September** | |
|---|---|---|
| | **2015** | 2014 |
| | ***HK$'000*** | *HK$'000* |
| Turnover | | |
| Sales of goods | **1,786,204** | 2,000,349 |

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

| | Six months ended 30 September | |
|---|---|---|
| | **2015** | 2014 |
| | ***HK$'000*** | *HK$'000* |
| Gain/(loss) on disposal of property, plant and equipment, net | **296** | (540) |
| Exchange (loss)/gain, net | **(22,621)** | 2,840 |
| Gain on remeasuring to fair value of the existing interest in an associate on acquisition of control | **4,222** | – |
| Bargain purchase | **9,863** | – |
| | **(8,240)** | 2,300 |

## 7. OTHER INCOME

| | Six months ended 30 September | |
|---|---|---|
| | **2015** | 2014 |
| | ***HK$'000*** | *HK$'000* |
| Building management fee income | **1,170** | 1,170 |
| Interest income | **957** | 598 |
| Sundries | **13,689** | 12,705 |
| | **15,816** | 14,473 |

## 8. EXPENSES BY NATURE

Expenses included in arriving at the (loss)/profit before income tax are analysed as follows:

| | Six months ended 30 September | |
|---|---|---|
| | **2015** | 2014 |
| | ***HK$'000*** | *HK$'000* |
| Depreciation of property, plant and equipment | | |
| – Owned | **51,513** | 58,884 |
| Amortisation of prepayment of lease premium | **3,039** | 3,471 |
| Amortisation of technical know-how | **1,203** | – |
| Operating leases | **358,141** | 362,515 |
| (Write back of provision)/provision for stocks | **(1,669)** | 1,664 |
| Donation | **154** | 2,610 |
| Employee benefit expense | **362,360** | 362,573 |

## 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 30 September 2015 (2014: 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 30 September 2015 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 30 September | |
|---|---|---|
| | **2015** | 2014 |
| | ***HK\$'000*** | *HK\$'000* |
| Current income tax | | |
| Hong Kong profits tax | **6,871** | 31,174 |
| Overseas profits tax | **3,513** | 5,246 |
| Under/(over) provisions in respect of prior years | **206** | (54) |
| | **10,590** | 36,366 |
| Deferred income tax | **(1,150)** | (3,209) |
| Income tax expense | **9,440** | 33,157 |

## 10. DIVIDENDS

| | Six months ended 30 September | |
|---|---|---|
| | **2015** | 2014 |
| | ***HK\$'000*** | *HK\$'000* |
| No interim dividend for 2015 (2014: HK\$0.02 per ordinary share) | **–** | 20,929 |

At a meeting held on 26 November 2015, the directors did not propose the payment of interim dividend for the six months ended 30 September 2015 (2014: HK\$0.02 per ordinary share).

## 11. (LOSS)/EARNINGS PER SHARE

### Basic

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

| | Six months ended 30 September | |
|---|---|---|
| | **2015** | 2014 |
| Weighted average number of ordinary shares in issue (thousands) | **1,046,474** | 1,046,474 |
| (Loss)/profit attributable to equity holders of the Company (HK$'000) | **(33,079)** | 105,196 |
| Basic (loss)/earnings per share (HK cents) | **(3.16)** | 10.05 |

### Diluted

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group's dilutive potential ordinary shares in existence represent convertible bonds. The convertible bonds are assumed to have been converted into ordinary shares, and the net (loss)/profit is adjusted to eliminate the expense relating to the convertible bonds less the tax effect.

Diluted (loss)/earnings per share for the six months ended 30 September 2015 equals basic (loss)/earnings per share as the conversion of convertible bonds would be anti-dilutive.

| | Six months ended 30 September | |
|---|---|---|
| | **2015** | 2014 |
| Number of ordinary shares in issue throughout the year (thousands) | **1,046,474** | 1,046,474 |
| Effect of conversion of convertible bonds (thousands) | **–** | 190,268 |
| Weighted average number of ordinary shares adjusted for effect of dilution (thousands) | **1,046,474** | 1,236,742 |
| (Loss)/profit attributable to equity holders of the Company (HK$'000) | **(33,079)** | 105,196 |
| Borrowing cost on convertible bonds (HK$'000) | **–** | 12,192 |
| Tax relief thereon (HK$'000) | **–** | (1,071) |
| Adjusted (loss)/profit attributable to equity holders of the Company (HK$'000) | **(33,079)** | 116,317 |
| Diluted (loss)/earnings per share (HK cents) | **(3.16)** | 9.41 |

## 12. CAPITAL EXPENDITURE

| | Technical know-how *HK$'000* | Goodwill *HK$'000* | Trademarks *HK$'000* | Total intangible assets *HK$'000* | Property, plant and equipment *HK$'000* | Prepayment of lease premium *HK$'000* |
|---|---|---|---|---|---|---|
| **Opening net book amount as at 1 April 2015** | **–** | **9,006** | **51,658** | **60,664** | **460,463** | **40,242** |
| **Additions** | **–** | **–** | **–** | **–** | **56,278** | **–** |
| **Acquisition of a subsidiary** | **70,816** | **–** | **–** | **70,816** | **3,532** | **–** |
| **Exchange differences** | **(51)** | **371** | **(70)** | **250** | **(13,656)** | **(4,015)** |
| **Disposals** | **–** | **–** | **–** | **–** | **(808)** | **(1,551)** |
| **Depreciation/amortisation** | **(1,203)** | **–** | **–** | **(1,203)** | **(51,513)** | **(3,039)** |
| **Impairment** | **–** | **–** | **–** | **–** | **(2,808)** | **–** |
| **Closing net book amount as at 30 September 2015** | **69,562** | **9,377** | **51,588** | **130,527** | **451,488** | **31,637** |
| Opening net book amount as at 1 April 2014 | – | 10,266 | 52,931 | 63,197 | 493,473 | 47,256 |
| Additions | – | – | – | – | 45,964 | – |
| Exchange differences | – | (280) | (1,030) | (1,310) | 4 | 121 |
| Disposals | – | – | – | – | (1,024) | – |
| Depreciation/amortisation | – | – | – | – | (58,884) | (3,471) |
| Impairment | – | – | – | – | (3,210) | – |
| Closing net book amount as at 30 September 2014 | – | 9,986 | 51,901 | 61,887 | 476,323 | 43,906 |
| Opening net book amount as at 1 October 2014 | – | 9,986 | 51,901 | 61,887 | 476,323 | 43,906 |
| Additions | – | – | – | – | 49,878 | – |
| Exchange differences | – | (980) | (243) | (1,223) | (7,945) | (284) |
| Disposals | – | – | – | – | (693) | – |
| Depreciation/amortisation | – | – | – | – | (54,744) | (3,380) |
| Impairment | – | – | – | – | (2,356) | – |
| Closing net book amount as at 31 March 2015 | – | 9,006 | 51,658 | 60,664 | 460,463 | 40,242 |

## 13. INVESTMENT IN AN ASSOCIATE

| | **30 September 2015** *HK$'000* | 31 March 2015 *HK$'000* |
|---|---|---|
| Opening balance | **61,329** | 54,989 |
| Acquisition of additional interest in an associate | **–** | 17,448 |
| Transfer to become a subsidiary | **(61,329)** | – |
| Share of loss | **–** | (5,302) |
| Exchange differences | **–** | (5,806) |
| Closing balance | **–** | 61,329 |

The Group's share of the results in Catena SA and its aggregated assets and liabilities and revenues are shown below:

| | **Six months ended 30 September** | |
|---|---|---|
| | **2015** *HK$'000* | 2014 *HK$'000* |
| Assets | **–** | 78,439 |
| Liabilities | **–** | 8,781 |
| Revenues | **–** | 23,200 |
| Share of loss | **–** | (913) |

On 16 April 2015, the Group acquired additional 48% interest in CATENA SA and since then CATENA SA becomes the subsidiary of the Group. (Note 22)

## 14. STOCKS

| | **30 September 2015** *HK$'000* | 31 March 2015 *HK$'000* |
|---|---|---|
| Raw materials | **144,372** | 111,432 |
| Work-in-progress | **23,231** | 13,087 |
| Finished goods | **1,050,333** | 1,203,213 |
| | **1,217,936** | 1,327,732 |

## 15. DEBTORS, DEPOSITS AND PREPAYMENTS

| | 30 September 2015 HK$'000 | 31 March 2015 HK$'000 |
|---|---|---|
| Trade debtors, gross | **247,538** | 253,892 |
| Less: provision for impairment of trade debtors | **(435)** | (472) |
| Trade debtors, net | **247,103** | 253,420 |
| Deposits, prepayments and other debtors | **348,628** | 344,075 |
| | **597,731** | 597,495 |
| Less: non-current portion deposits and prepayments | **(176,613)** | (166,752) |
| Current portion | **419,118** | 430,743 |
| Trade debtors analysed by invoice date (note): | | |
| Below 60 days | **68,106** | 82,561 |
| Over 60 days | **179,432** | 171,331 |
| | **247,538** | 253,892 |

*Note:*

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

## 16. SHARE CAPITAL

| | *Note* | Number of shares of HK$0.1 each | HK$'000 |
|---|---|---|---|
| Issued and fully paid: | | | |
| At 30 September 2014, 1 April 2015 and 30 September 2015 | | **1,046,474,025** | **104,647** |

*Note:*

No share options were exercised, granted or lapsed during the six months ended 30 September 2015 and the year ended 31 March 2015.

## 17. CREDITORS AND ACCRUALS

| | 30 September 2015 HK$'000 | 31 March 2015 HK$'000 |
|---|---|---|
| Trade creditors | **387,566** | 321,531 |
| Other creditors and accruals | **279,436** | 279,957 |
| | **667,002** | 601,488 |
| Less: non-current portion other creditors and accruals | **(11,083)** | – |
| Current portion | **655,919** | 601,488 |
| Trade creditors analysed by invoice date: | | |
| Below 60 days | **363,964** | 298,550 |
| Over 60 days | **23,602** | 22,981 |
| | **387,566** | 321,531 |

## 18. BORROWINGS

| | *Note* | 30 September 2015 HK$'000 | 31 March 2015 HK$'000 |
|---|---|---|---|
| Bank borrowings | *(a)* | **499,463** | 631,528 |
| Obligations under finance leases | *(c)* | **229** | 265 |
| | | **499,692** | 631,793 |
| Amount repayable within one year included in current liabilities | | **(457,759)** | (579,725) |
| | | **41,933** | 52,068 |

*Note:*

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

| | 30 September 2015 HK$'000 | 31 March 2015 HK$'000 |
|---|---|---|
| Within 1 year | **457,733** | 579,671 |
| Between 1 and 2 years | **11,477** | 12,722 |
| Between 2 and 5 years | **16,531** | 20,762 |
| Over 5 years | **13,722** | 18,373 |
| | **499,463** | 631,528 |

Included in bank borrowings as at 30 September 2015 are secured borrowings of HK$456,321,000 (31 March 2015: HK$546,186,000), which are secured by land and buildings and prepayment of lease premium of the Group.

## 18. BORROWINGS (Continued)

*Note: (Continued)*

(b) Movement in bank loans during the period is analysed as follows:

| | Six months ended 30 September | |
|---|---|---|
| | **2015** | 2014 |
| | ***HK$'000*** | *HK$'000* |
| Opening balance | **631,528** | 534,463 |
| Drawdown of bank loans | **351,218** | 478,713 |
| Repayment of bank loans | **(479,782)** | (492,209) |
| Exchange differences | **(3,501)** | (95) |
| Closing balance | **499,463** | 520,872 |

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

| | **30 September 2015** | 31 March 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 1 year | **29** | 60 |
| Between 1 and 2 years | **59** | 60 |
| Between 2 and 5 years | **171** | 179 |
| | **259** | 299 |
| Future finance charges on finance leases | **(30)** | (34) |
| Present value of finance lease liabilities | **229** | 265 |

The present value of finance lease liabilities is analysed as follows:

| | **30 September 2015** | 31 March 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 1 year | **26** | 53 |
| Between 1 and 2 years | **52** | 53 |
| Between 2 and 5 years | **151** | 159 |
| | **229** | 265 |

## 19. CONVERTIBLE BONDS

The movement of the liability component of the convertible bonds for the period is set out below:

| | Six months ended 30 September | |
|---|---|---|
| | **2015** | 2014 |
| | ***HK$'000*** | *HK$'000* |
| Liability component at 1 April | **380,753** | 331,456 |
| Changes in fair value included in finance costs | **37,760** | 12,212 |
| Interest incurred/accrued | **(6,493)** | (6,511) |
| Liability component at 30 September | **412,020** | 337,157 |

During the period ended 30 September 2015, none of the bonds were redeemed, converted, purchased or cancelled.

## 20. COMMITMENTS

| | **30 September 2015** *HK$'000* | 31 March 2015 *HK$'000* |
|---|---|---|
| Capital commitments for property, plant and equipment: | | |
| Contracted but not provided for | **6,509** | 8,950 |

## 21. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Yee Hing Company Limited ("Yee Hing"), directly and indirectly through its subsidiary including Active Lights Company Limited, held 1,195,100 shares of the Company as at 30 September 2015. 55% of the total issued ordinary shares of Yee Hing is held by Klayze Holdings Limited, which is the trustee of a discretionary trust (the "Trust"). Mr. Joseph C.C. Wong and Mr. Sakorn Kanjanapas are the beneficiaries of the Trust and were therefore deemed to be interested in 1,195,100 shares of the Company through the Trust's interest in Yee Hing.

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 30 September** | |
|---|---|---|
| | **2015** *HK$'000* | 2014 *HK$'000* |
| Service income from a related company *(note)* | **1,170** | 1,170 |

*Note*: A wholly-owned subsidiary of the Group entered into a renewal agreement with Mengiwa Property Investment Limited ("MPIL"), a wholly-owned subsidiary company of Yee Hing, for the provision of the following services for the period from 1 April 2013 to 31 March 2016:

(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$195,000 per calendar month during the duration of the agreement.

## 21. RELATED PARTY TRANSACTIONS (Continued)

(ii) Purchases of goods and services from related companies

| | Six months ended 30 September | |
|---|---|---|
| | **2015** | 2014 |
| | ***HK$'000*** | *HK$'000* |
| Purchases of goods from a related company *(note a)* | **648** | 558 |
| Rental expense to related companies *(note b)* | **8,569** | 6,989 |

*Note:*

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

(b) During the period, certain subsidiaries of the Group 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 30 September | |
|---|---|---|
| | **2015** | 2014 |
| | ***HK$'000*** | *HK$'000* |
| MPIL | **7,582** | 6,005 |
| Other related parties | **987** | 984 |
| | **8,569** | 6,989 |

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

| | **30 September 2015** | 31 March 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trading balances receivable from related companies | **5,314** | 5,150 |
| Trading balances payable to related companies | **(32)** | (1,413) |

(iv) Key management compensation

| | Six months ended 30 September | |
|---|---|---|
| | **2015** | 2014 |
| | **HK$'000** | HK$'000 |
| Salaries and other short-term employee benefits | **8,367** | 10,935 |
| Other long-term benefits | **84** | 108 |
| | **8,451** | 11,043 |

## 22. BUSINESS COMBINATION

On 16 April 2015, the Group acquired an additional 48% equity interest in CATENA SA, a Switzerland watch movement manufacturer, for a cash consideration of EUR1,660,000 and entered into a shareholders' agreement with the 12% equity interest holder of CATENA SA for a call option to purchase the 12% equity interest. Together with the previously owned 40% equity interest and the Group's underlying right to the call option, the Group is considered as controlling all equity interest in CATENA SA.

The following table summarises the consideration paid for CATENA SA, the fair value of assets acquired and liabilities assumed at the acquisition date:

| | *HK$'000* |
|---|---|
| Consideration: | |
| At 16 April 2015 | |
| – Cash | 14,386 |
| Total consideration transferred | 14,386 |
| – Fair value of equity interest in CATENA SA held before the business combination | 68,527 |
| – Deferred consideration payable | 11,083 |
| Total consideration | 93,996 |
| Recognised amounts of identifiable assets and liabilities assumed | |
| Property, plant and equipment | 3,532 |
| Intangible assets | 70,816 |
| Inventories | 25,849 |
| Debtors and prepayments | 2,206 |
| Cash and cash equivalents | 22,257 |
| Creditors and accruals | (10,957) |
| Deferred tax liabilities | (9,844) |
| Total identifiable net assets | 103,859 |
| Bargain purchase | (9,863) |
| | 93,996 |
| Additional purchase consideration settled in cash | (14,386) |
| Cash and cash equivalents acquired | 22,257 |
| Cash inflow on acquisition | 7,871 |

## 22. BUSINESS COMBINATION (Continued)

Acquisition-related costs of HK$770,000 have been charged to administrative expenses in the condensed consolidated income statement for the six months ended 30 September 2015.

The Group recognised a gain of HK$4,222,000 as a result of remeasuring at fair value its 40% equity interest in CATENA SA held before the business combination. The gain is included in other (losses)/gains, net in the condensed consolidated income statement for the six months ended 30 September 2015.

A gain on bargain purchase of HK$9,863,000 has been recognised to other (losses)/gains, net in the condensed consolidated income statement for the six months ended 30 September 2015.

CATENA SA contributed a revenue of approximately HK$625,000 and a loss of approximately HK$8,913,000 to the Group for the six months ended 30 September 2015.

Had CATENA SA been consolidated from 1 April 2015, the condensed consolidated income statement would show revenue of approximately HK$1,786,204,000 and a loss of approximately HK$33,034,000.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

- Group Turnover decrease by 10.7% (FX neutral: 7.9%)
- Group Gross Profit Margin down 1.8% to 59.8%
- Group Net Loss at HK$33.1 million
- Group operating cost down 3.3% including rental reduction of 1.2%
- Inventory reduced by HK$109.8 million, (8.3%) vs March 2015
- Gearing ratio improved to 33.8% from 38.2%

The Group's businesses comprise principally of watch retailing ("CITY CHAIN"), optical retailing ("OPTICAL 88" and "eGG Optical Boutique"); and the wholesale trading of watches ("SEIKO" and "Suunto"). Operating 645 stores, our businesses offer affordable lifestyle products and quality services targeting the middle income consumer in Asia.

For the six months ended 30 September 2015 ("1H 2015"), the Group reported a decrease in turnover of 10.7% to HK$1,786.2 million (FX neutral: 7.9 %) and a net loss attributable to its equity holders of HK$33.1 million (1H 2014: net profit of HK$105.2 million) as the interim period posed challenging due to persistent weak consumer spending across the regions where we operate and the appreciation of the Hong Kong dollar against various Asian currencies. Excluding the non-cash impact of borrowing costs of convertible bonds of HK$34.1 million, fair value gain on acquisition of a subsidiary of HK$14.1 million and an exchange loss of HK$22.6 million, the Group would have reported a Profit Attributable to Shareholders of HK$9.5 million (1H 2014: HK$110.7 million).

Shop and office operation costs fell by 3.3%, including reduction of rental expenses by 1.2% (1H 2014: increase of 6.3% year on year) compared to 1H 2014 given prevailing inflationary pressures in the regions where we operate.

The Group continued to adopt a conservative approach to financial management and focused on strengthening working capital and liquidity; and tightening procurement, inventory management and rationalization. As such, Group inventory was reduced to HK$1,217.9 million, down 8.3% (HK$109.8 million) and 14.8% (HK$211.4 million) respectively against that as at the end of March 2015 and September 2014. Due to inventory optimization, Group gross profit margin decreased to 59.8% (2014: 61.6%) but gross profit margins at both Optical 88 and eGG improved slightly notwithstanding the competitive market and poor sentiment.

Owing to tightened inventory management and reduced purchases, net debts decreased by HK$97.8 million to HK$454.6 million (March 2015: HK$552.4 million), with a notable decrease in short term bank borrowings of HK$121.9 million. Group gearing ratio improved to 33.8% as at 30 September 2015 compared to 38.2% as at 31 March 2015 and Group operating cash inflow increased substantially to around HK$ 187.0 million(2014: HK$79.2 million).

## INTERIM DIVIDEND

As the Board expects the tough operating environment to persist, for prudent treasury management purposes, the Board does not recommend the payment of an interim dividend for the six months ended 30 September 2015 (2014: HK$0.02 per ordinary share). However, the Board will consider returning to an appropriate dividend payout when the operating environment improves.

## CITY CHAIN GROUP

- City Chain Group turnover down 12.1%
- City Chain Group EBIT down 86.4% to HK$15.7 million

During the period under review, the City Chain Group which operates stores in Hong Kong, Macau, Mainland China, Singapore, Thailand and Malaysia together with on-line stores at http://citychain.tmall.com/ and http://titus.tmall.com/ posted a turnover of HK$957.9 million (2014: HK$1,090.1 million) whilst EBIT fell by around 86.4% to HK$15.7 million (2014: HK$115.0 million) due to sluggish turnover performance in Hong Kong/Macau and Southeast Asia and narrowed gross profit margin but inventory was reduced by 16.0% compared to that of 31 March 2015.

### Hong Kong and Macau

In 1H 2015, Hong Kong and Macau recorded a decline in turnover of 14.2% to HK$646.6 million (1H 2014: HK$753.4 million) due to reduced tourist spending, shop consolidation measures, and a high comparable base in 1H 2014 when the Group achieved record breaking monthly sales. An EBIT of HK$67.9 million (1H 2014: HK$156.3 million), representing a fall of around 56.5% was reported. A combination of factors, namely, a decrease in turnover, narrowed gross profit margin due to stock rationalization and the time lag in containing operating costs such as shop rentals led to the decline. Operating costs other than shop rentals decreased by around 8% despite inflationary pressure. The Group continues to tighten operating expenses to adapt to existing turnover levels to improve performance.

We are also rationalizing our store portfolio based on shop profitability when considering shop renewal or relocation to achieve lower rental to turnover ratios. Inventory levels and product mix in shops are also under fine tuning to respond promptly to the changing market sentiment and softened purchasing power.

**Mainland China**

Mainland China continues to be a key market where the Group will focus its long term growth plans.

In 1H 2015, our Mainland operations achieved moderate sales growth of 11.2% to HK$113.2 million (1H 2014: HK$ 101.8 million) despite the slowing economy, driven mostly by positive same store sales growth especially in the Eastern (around 27%) and Southwest regions (around 40%). Due to aggressive price cuts by competitors and a change in stock management strategy, gross profit margins came under pressure. Stock clearance initiatives have proven successful and we are on track towards maintaining a healthier and more competitive inventory balance. Loss, standing at HK$28.6 million remained similar to that of last year (1H 2014: HK$ 28.8 million) since most of the uplift in sales was offset by the drop in gross profit margin. Notably, the loss posted by existing operations in Northern China fell by around 57% compared to the same period last year due to restructuring efforts taken in Q2.

A few initiatives spurred sales growth-management structure was fine-tuned to fully unleash synergies, share best practices and maximize efficiencies, whilst investment on advertising especially in social media to enhance brand awareness of our house brand "TITUS" was also strengthened. Moreover, we revisited our network expansion strategy and shop portfolio to ensure scalable contributions from new shops.

We expect to accelerate network expansion, increasing penetration in regions where we have a presence, and also setting up in multiple second and third tier cities where we do not yet have a presence to achieve economies of scale.

**South East Asia**

In 1H 2015, our watch retail business in Southeast Asia was adversely affected by weakening economic fundamentals, with poor consumer sentiment and weak local currencies. Turnover dropped by 15.7% to HK$198.1 million (1H 2014: HK$234.9 million). In local currency terms, turnover dropped by 4% while shop months fell by about 11.3% due to the store consolidation efforts in Thailand and Singapore. Due to inventory clearance and market competition, gross profit margin was reduced. A loss of HK$23.6 million was recorded (1H 2014: a loss of HK$12.5 million), but a large part of the loss was attributed to the sharp depreciation of the Malaysian ringgit. On an exchange neutral basis the loss would have been maintained at HK$13.2 million (1H 2014: HK$12.5 million).

The retail sector in Malaysia was severely affected by the introduction of GST in April 2015 and the depreciation of Malaysian ringgit. Despite this, turnover in local currency terms remained stable due to successful restructuring and re-merchandising measures adopted.

In Singapore, store consolidation and productivity enhancement measures have been very successful and we have seen sales per shop month improving significantly by 22.5% and at the same time operating costs have fallen by 19.6%. This has helped to narrow the loss by 33.6% to HK$8.3 million (1H 2014: a loss of HK$12.5 million).

The unstable political situation in Thailand and high household debt ratio has resulted in very low consumer confidence which has continued to fall since January 2015. Due to this, our Thai operations, posted a 24.2% (FX neutral: 18.8%) decline in turnover. We have implemented aggressive store consolidation measures with over 10 non-performing stores closed, and these store consolidation efforts will continue in the 2nd half of FY15/16 ("2H"). Cost control measures were also implemented reducing our operating costs by 22.0%.

## OPTICAL 88 GROUP

- Optical 88 Group turnover down 10.5%

- Optical 88 Group EBIT down 53.2% to HK$18.0 million

Although, Optical 88 Hong Kong and Macau posted profitable results, the overall performance of the Optical 88 Group was affected by weak performance in Hong Kong/ Macau and Southeast Asia combined with weak local currencies in Southeast Asia.

For the period under review, the Optical 88 Group posted a turnover of HK$579.1 million down 10.5% (1H 2014: HK$ 646.8 million) and an EBIT of HK$18.0 million down 53.2% (2014: HK$ 38.4 million).

### Hong Kong and Macau

For the period under review, turnover decreased by around 8.9% to HK$407.1 million (1H 2014: HK$446.8 million). Further, EBIT declined by around 32.6% to HK$36.9 million (1H 2014: HK$54.7 million) despite efforts in cutting operating costs (other than shop rentals) by around 7.4%. The turnover performance was impacted by the softened demand from local customers and tourists but gross profit margin remained healthy and stable.

### Mainland China

Building on Optical 88's professional and healthcare positioning, we will continue to expand our shop network in Mainland China and as such in the 2H of FY15/16, we aim to accelerate network expansion in the Southern and Southwest regions to further strengthen our market share, paving for further expansion into other parts of China.

Mainland China reported a slight decline in sales of 5.3% to HK$ 57.0 million (1H 2014: HK$60.3 million). A stable turnover performance at RMB41.8 million was posted (equivalent to HK$51.9 million) (1H 2014: RMB 41.6 million, equivalent to HK$ 52.0 million) and we sustained our position as one of the leading players in the more mature Southern region despite the very keen price competition and achieved robust sales growth of 22.3% in the Southwest region. Gross profit margin improved by 2%. Further, operating costs decreased by 11.9% with closure of loss making shops and lower fixed overheads in Eastern China. With improving gross margin and reduced operating costs, losses were reduced substantially by 39.3% to HK$7.4 million (1H 2014: HK$12.2 million). In the Southern region, our operations achieved results close to shop-level breakeven.

**South East Asia**

Like our watch retail business, our Optical 88 SEA operations faced similar adverse factors. Turnover dropped by 17.8% (FX neutral: 7.1%) to HK$114.9 million (1H 2014: HK$139.7 million) and a loss of HK$11.5 million was recorded (1H 2014: a loss of HK$4.0 million). On an exchange neutral basis, a smaller loss of HK$6.2 million would have been recorded.

With the introduction of GST in Malaysia in April 2015, turnover in the first quarter was impacted. However, we managed to alleviate it to a certain extent in the second quarter, resulting in the stable turnover in local currency compared to that of the corresponding period last year. The market will continue to be challenging for the remaining fiscal year. In the 2H of FY15/16, we will continue to improve our profit margin that has improved by 2.1% in 1H 2015 compared to 1H 2014.

Store consolidation and productivity enhancement measures in Singapore have paid off this year, with loss narrowing by 10.7% to HK$7.5 million (2014: HK$ 8.4 million) through reduction of operating costs by 15.4%. For the 2H of FY15/16, we will focus on improvements in operating efficiency to further reduce the loss in Singapore.

Our Thai operations is still profit generating but recorded a drop in turnover by 19.1% (FX neutral: 13.4%) caused by the significant decline in consumer confidence and purchasing power in Thailand. Severe competition driven by widespread sales promotions in the market has also led to narrowed margin. The tough market is expected to continue in Thailand, and we will consolidate shop operation via closure of non performing shops and continue with our cost control measures, which have reduced our operating costs by 15.7% in the 1H 2015.

**eGG OPTICAL BOUTIQUE**

- Turnover increased by 46.4% to HK$80.5 million
- Breakeven in Hong Kong
- Loss reduction to HK$3.3 million in PRC
- Continual positive same store sales growth

Currently, there are 21 stores in Hong Kong, 34 stores in Mainland China and 3 new stores in Southeast Asia. In 1H 2015, our eGG business performed well within expectations as turnover increased to HK$80.5 million (1H 2014: HK$55.0 million) with improving margin.

For the period under review, eGG Hong Kong posted almost breakeven results (1H 2014: loss of HK$0.5 million) given continual margin improvement and turnover increased by 45.0% to HK$ 49.5 million (1H 2014: HK$ 34.1 million) with shop expansion.

eGG PRC recorded a turnover of HK$31.0 million (1H 2014: HK$20.8 million), a growth of 48.8%. As the loss was reduced to HK$3.3 million (1H 2014: HK$5.7 million) owing to significant operating improvements in Northern China and close to breakeven achieved in Southwestern China through turnover growth. Combined with eGG's attractive and eye-catching shop visual merchandising and ability to attract consumer traffic appreciating lifestyle and fashion design, the Group will capture the opportunities in the current soft leasing market to further expand into Mainland China.

## SUPPLY CHAIN MANAGEMENT AND WHOLESALE TRADING

This business division is made up of the Group's supply chain and watch and optical wholesale units.

For the reporting period, turnover fell 19.1% to HK$168.7 million (1H 2014: HK$208.5 million) whilst EBIT was down by 37.9% to HK$36.7 million (1H 2014: HK$59.1 million). The operating performance at our watch wholesale unit was negatively impacted by the widespread sluggish sentiment, contracting order placements from retailers and depreciation of currencies in Malaysia and Singapore.

## FUTURE

As evident from the above set of results, the measures and policies we have put in place have been successful and these will continue as we do not foresee a turnaround in market conditions any time soon. We remain confident that the Group is well-positioned to meet challenges ahead and as such store expansion plans will continue in Mainland China in 2H of FY15/16, as we continue to transform the Group to become a major retail player in Greater China.

## FINANCE

The Group's gearing ratio at balance sheet date was 34% (at 31 March 2015: 38%), which was calculated based on the Group's net debt of HK$455 million (at 31 March 2015: HK$553 million) and shareholders' funds of HK$1,346 million (at 31 March 2015: HK$1,446 million). The Group's net debt was calculated based on the Group's borrowings of HK$500 million (at 31 March 2015: HK$632 million) and convertible bonds of HK$412 million (at 31 March 2015: HK$381 million) less the Group's bank balances and cash of HK$457 million (at 31 March 2015: HK$460 million). Of the Group's borrowings at balance sheet date, HK$458 million (at 31 March 2015: HK$580 million) were repayable within 12 months.

Of the Group's borrowings, 3% (at 31 March 2015: 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 use any financial instruments for hedging purposes.

The Group does not engage in speculative derivative trading.

As at 30 September 2015, 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 30 September 2015, the Group had 3,864 (at 30 September 2014: 3,631) employees.

## DETAILS OF THE CHARGES ON GROUP ASSETS

At 30 September 2015, certain of the Group's freehold land and buildings amounting to HK$284 million (at 31 March 2015: HK$294 million) were pledged to secure banking facilities granted to the Group.

## INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

Mr Joseph C. C. Wong and Mr Wallace Kwan Chi Kin 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 30 September 2015 amounted to HK$4,700,000 (2014: HK$7,000,000).

As at 30 September 2015, 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 | | | | | Approximate percentage of issued share capital |
|---|---|---|---|---|---|---|
| | Personal interest | Family interest | Corporate/ trust interest | Other interest | Total | |
| Mr Joseph C. C. Wong | 542,088,814 | 11,000 | 1,195,100 *(Note 1)* | – | 543,294,914 | 51.92 |
| Mr Sakorn Kanjanapas | 67,221,078 | – | 1,195,100 *(Note 1)* | – | 68,416,178 | 6.54 |
| Mr Wallace Kwan Chi Kin | – | – | – | – | – | – |

*Notes:*

(1) Yee Hing Company Limited, directly and indirectly through its subsidiary including Active Lights Company Limited, held 1,195,100 shares of the Company as at 30 September 2015. 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. Joseph C.C. Wong and Mr. Sakorn Kanjanapas are the beneficiaries of the Trust and were therefore deemed to be interested in 1,195,100 shares of the Company through the Trust's interest in Yee Hing Company Limited.

## (b) Subsidiaries

| | Number of shares Personal interest | Family interest | Corporate interest | Total | Approximate percentage of preference share as at 30 September 2015 |
|---|---|---|---|---|---|
| (i) City Chain (Thailand) Company Limited – Preference shares [(1)] | | | | | |
| 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 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 Joseph C. C. Wong | 5,000 | – | 225,000 | 230,000 | 90.20 |
| Mr Sakorn Kanjanapas | 5,000 | – | 225,000 | 230,000 | 90.20 |
| (iv) Stelux (Thailand) Limited – Preference shares [(4)] | | | | | |
| Mr Joseph C. C. Wong | 5,100 | – | – | 5,100 | 100.00 |

*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. 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. Joseph C. C. Wong and Mr. Sakorn Kanjanapas in 225,000 preference shares duplicate with each other.

(4) Stelux (Thailand) Limited is a subsidiary of the Company. Mr. Joseph C. C. Wong is entitled to approximately 8.6% of the voting power of such subsidiary and an annual fixed dividend by virtue of the 5,100 preference shares held by him but not to any other profit sharing.

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

As at 30 September 2015, the following persons had interests in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

*Long position in shares and underlying shares of the Company*

| Name of Director | Number of shares | | | | | Approximate percentage of issued share capital |
|---|---|---|---|---|---|---|
| | Personal interest | Family interest | Corporate/ trust interest | Other interest | Total | |
| Mr Joseph C. C. Wong | 542,088,814 | 11,000 | 1,195,100 *(Note 1)* | – | 543,294,914 | 51.92 |
| Mr Sakorn Kanjanapas | 67,221,078 | – | 1,195,100 *(Note 1)* | – | 68,416,178 | 6.54 |
| Boyu Capital Holdings Ltd. | – | – | 190,268,000 *(Note 2)* | – | 190,268,000 | 18.18 |
| NTAsian Discovery Master Fund | 54,250,000 | – | – | – | 54,250,000 | 5.18 |

*Notes:*

(1) Yee Hing Company Limited, directly and indirectly through its subsidiary including Active Lights Company Limited, held 1,195,100 shares of the Company as at 30 September 2015. 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. Joseph C.C. Wong and Mr. Sakorn Kanjanapas are the beneficiaries of the Trust and were therefore deemed to be interested in 1,195,100 shares of the Company through the Trust's interest in Yee Hing Company Limited.

(2) The Company has issued convertible bonds in an aggregate principal amount of HK$371,022,600 to Sapphire Illuminatus Holdings Limited (the "Convertible Bonds"), all of which were outstanding as at 30 September 2015. The Convertible Bonds are convertible into shares of the Company at the initial conversion price of HK$1.95 per new share. Assuming the exercise in full of the conversion right attaching to the Convertible Bonds at the initial conversion price, a total of 190,268,000 new shares of the Company will be issued. Sapphire Illuminatus Holdings Limited is wholly-owned by Boyu Capital Fund I, L.P., which is wholly-owned by Boyu Capital General Partner I, L.P., which is wholly-owned by Boyu Capital General Partner I, Ltd., which is in turn wholly-owned by Boyu Capital Holdings Ltd.

Save as disclosed above, 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 30 September 2015.

## 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.

## 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 30 September 2015, the Company has complied with the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Code"), except for the following deviations:

### Code Provision A.2.1

Under Code Provision A.2.1 of the Code, the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. Under the current organisation structure of the Group, Mr. Joseph C.C. Wong is both Chairman and CEO of the Group. The Board is of the opinion that vesting the roles of both Chairman and CEO in Mr. Joseph C.C. Wong has the benefit of ensuring consistent leadership within the Group thus enabling more effective and efficient strategic planning and execution for the Group. Under this arrangement, the Board also believes that the balance of power and authority will not be compromised and is adequately ensured by the existing Board which comprises experienced and competent individuals with one-third of the Board being independent non-executive directors.

### 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 or CEO, shall retire from office by rotation at each annual general meeting.

### Code Provision B.1.2

This Code deals with the terms of reference of a remuneration committee. The Company has adopted the terms of reference under Code Provision B.1.2(c)(i) 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 their performance.

**Audit Committee**

On 23 June 2015 and 23 November 2015, the Audit Committee together with the management of the Company reviewed the effectiveness of the systems of internal control throughout the Group for the six months ended 30 September 2015 and discussed auditing and financial reporting matters including review of the Group's results for the year ended 31 March 2015 and for the six months ended 30 September 2015 respectively before they were presented to the Board of directors for approval. The external auditors met with the Audit Committee on 23 June 2015 to discuss the Group's audit service plan and to review the Group's results for FY14/15 during the meeting.

**Remuneration Committee**

The Remuneration Committee met on 21 August 2015 to conduct a review on the salaries of the executive directors and determined the annual bonus scheme for FY15/16 for its 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 30 September 2015.

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

Hong Kong, 26 November 2015

Directors of the Company as at the date hereof:

*Executive directors:*
Chumphol Kanjanapas (also known as Joseph C. C. Wong) *(Chairman and Chief Executive Officer)* and Wallace Kwan Chi Kin *(Chief Financial Officer)*

*Non-Executive directors:*
Sakorn Kanjanapas, Ma Xuezheng (also known as Mary Ma), Wong Yu Tsang Alex (also known as Alex Wong), Wu Chun Sang *(independent)*, Lawrence Wu Chi Man *(independent)* and Agnes Kwong Yi Hang *(independent)*

## Email Contacts

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Shareholder's Enquiries: shareholdersenquiries@stelux.com