

# **STELUX Holdings International Limited**

*Incorporated in Bermuda with limited liability*

*<http://www.irasia.com/listco/hk/stelux>*

**INTERIM REPORT 2004/2005**

**INTERIM REPORT AND ACCOUNTS  
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2004**

The Directors are pleased to report the Group's interim report and accounts for the six months ended 30th September 2004. The Group reported a profit attributable to shareholders of HK\$39 million for the period under review. The consolidated results of the Group for the six months ended 30th September 2004, the consolidated balance sheet as at 30th September 2004, the consolidated cash flow statement and the consolidated statement of changes in equity of the Group for the six months ended 30th September 2004, all of which are unaudited, along with the relevant explanatory notes, are set out below.

**CONSOLIDATED PROFIT AND LOSS ACCOUNT  
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2004**

|                                     |      | Unaudited<br>Six months ended<br>30th September |                  |
|-------------------------------------|------|---|------------------|
|                                     |      | 2004<br>HK\$'000                                | 2003<br>HK\$'000 |
|                                     | Note |   |                  |
| Turnover                            | 2    | 672,618   | 559,907          |
| Cost of sales                       |      | (231,208)                                       | (205,467)        |
| Gross profit                        |      | 441,410   | 354,440          |
| Other income                        |      | 7,301   | 8,337            |
| Selling expenses                    |      | (291,672)                                       | (247,595)        |
| General and administrative expenses |      | (79,896)  | (72,249)         |
| Other operating expenses            |      | (24,895)  | (22,602)         |
| Operating profit before financing   | 3    | 52,248  | 20,331           |
| Finance costs                       |      | (10,756)  | (14,155)         |
| Profit before taxation              |      | 41,492  | 6,176            |
| Taxation charge                     | 4    | (2,026)   | (3,188)          |
| Profit after taxation               |      | 39,466  | 2,988            |
| Minority interests                  |      | —   | —                |
| Profit attributable to shareholders |      | 39,466  | 2,988            |
| Dividend                            | 5    | 9,513   | —                |
| Earnings per share                  | 6    | HK cents  | HK cents         |
| – basic                             |      | 4.18  | 0.32             |
| – diluted                           |      | 4.17  | 0.32             |

**CONSOLIDATED BALANCE SHEET**  
**AT 30TH SEPTEMBER 2004 AND 31ST MARCH 2004**

|  |             | <b>Unaudited<br/>30th September<br/>2004</b> | <b>Audited<br/>31st March<br/>2004</b> |
|--|-------------|--|--|
|  | <i>Note</i> | <i>HK\$'000</i>                              | <i>HK\$'000</i>                        |
| Non-current assets                       |             |  |  |
| Fixed assets                             |             | 872,379                                      | 879,659                                |
| Investment securities                    |             | 4,299  | 4,299                                  |
| Trademarks                               |             | 18,127                                       | 19,160                                 |
| Deferred tax assets                      |             | 26,647                                       | 26,910                                 |
|  |             | <u>921,452</u>                               | <u>930,028</u>                         |
| Current assets                           |             |  |  |
| Stocks                                   |             | 431,565                                      | 349,385                                |
| Debtors and prepayments                  | 7           | 299,194                                      | 344,794                                |
| Marketable securities                    |             | 75   | 74                                     |
| Bank balances and cash                   |             | 50,982                                       | 53,037                                 |
|  |             | <u>781,816</u>                               | <u>747,290</u>                         |
| Current liabilities                      |             |  |  |
| Creditors and accruals                   | 8           | 324,903                                      | 277,181                                |
| Loans from shareholders                  |             | 3,892  | 3,892                                  |
| Taxation payable                         |             | 13,141                                       | 11,616                                 |
| Current portion of long term liabilities | 10          | 22,974                                       | 57,278                                 |
| Bank overdrafts and short term loans     |             |  |  |
| Secured                                  |             | 169,231                                      | 185,089                                |
| Unsecured                                |             | 57,721                                       | 49,280                                 |
|  |             | <u>591,862</u>                               | <u>584,336</u>                         |
| Net current assets                       |             | <u>189,954</u>                               | <u>162,954</u>                         |
| Total assets less current liabilities    |             | <u>1,111,406</u>                             | <u>1,092,982</u>                       |
| Financed by:                             |             |  |  |
| Share capital                            | 9           | 94,934                                       | 94,334                                 |
| Reserves                                 |             | 730,618                                      | 707,158                                |
| Declared interim/proposed final dividend |             | 9,513  | 18,867                                 |
|  |             | <u>835,065</u>                               | <u>820,359</u>                         |
| Shareholders' funds                      |             | 1,525  | 1,606                                  |
| Minority interests                       |             | 254,068                                      | 250,269                                |
| Long term liabilities                    | 10          | 20,748                                       | 20,748                                 |
| Deferred tax liabilities                 |             |  |  |
| Funds employed                           |             | <u>1,111,406</u>                             | <u>1,092,982</u>                       |

**CONSOLIDATED CASH FLOW STATEMENT  
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2004**

|  | <b>Unaudited<br/>Six months ended<br/>30th September</b> |                 |
|--|--|-----------------|
|  | <b>2004</b>  | <b>2003</b>     |
|  | <i>HK\$'000</i>  | <i>HK\$'000</i> |
| Net cash from operating activities                     | 79,840   | 27,243          |
| Net cash used in investing activities                  | (40,900)   | (16,422)        |
| Net cash used in financing activities                  | (38,853)   | (16,816)        |
| Net increase/(decrease) in cash and cash equivalents   | 87   | (5,995)         |
| Cash and cash equivalents at 1st April                 | 32,833   | 14,811          |
| Effect of foreign exchange rate changes                | (3,927)  | 2,200           |
| Cash and cash equivalents at 30th September            | <u>28,993</u>  | <u>11,016</u>   |
| Analysis of the balances of cash and cash equivalents: |  |                 |
| Bank balances and cash – unrestricted                  | 48,654   | 33,782          |
| Bank overdrafts  | (19,661)   | (22,766)        |
|  | <u>28,993</u>  | <u>11,016</u>   |

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2004**

|  | <b>Unaudited</b>     |                            |                      |   |                 |
|--|----------------------|----------------------------|----------------------|---|-----------------|
|  | <b>Share capital</b> | <b>Contributed surplus</b> | <b>Share premium</b> | <b>(Accumulated losses)/ Retained profits</b> | <b>Total</b>    |
|  | <i>HK\$'000</i>      | <i>HK\$'000</i>            | <i>HK\$'000</i>      | <i>HK\$'000</i>                               | <i>HK\$'000</i> |
| At 1st April 2004                              | 94,334               | 2,848,462                  | 793                  | (2,123,230)                                   | 820,359         |
| Transfer of contributed surplus                | –                    | (2,848,462)                | –                    | 2,848,462                                     | –               |
| 2004 final dividends paid                      | –                    | –                          | –                    | (18,867)                                      | (18,867)        |
| Issue of shares upon exercise of share options | 600                  | –                          | 888                  | –   | 1,488           |
| Profit for the period                          | –                    | –                          | –                    | 39,466  | 39,466          |
| Changes in exchange rates                      | –                    | –                          | –                    | (7,381)                                       | (7,381)         |
| At 30th September 2004                         | <u>94,934</u>        | <u>–</u>                   | <u>1,681</u>         | <u>738,450</u>                                | <u>835,065</u>  |

|                           | <b>Unaudited</b>     |                            |                      |                           |                 |
|---------------------------|----------------------|----------------------------|----------------------|---------------------------|-----------------|
|                           | <b>Share capital</b> | <b>Contributed surplus</b> | <b>Share premium</b> | <b>Accumulated losses</b> | <b>Total</b>    |
|                           | <i>HK\$'000</i>      | <i>HK\$'000</i>            | <i>HK\$'000</i>      | <i>HK\$'000</i>           | <i>HK\$'000</i> |
| At 1st April 2003         | 93,634               | 2,848,462                  | 443                  | (2,227,303)               | 715,236         |
| Profit for the period     | –                    | –                          | –                    | 2,988                     | 2,988           |
| Changes in exchange rates | –                    | –                          | –                    | 7,684                     | 7,684           |
| At 30th September 2003    | <u>93,634</u>        | <u>2,848,462</u>           | <u>443</u>           | <u>(2,216,631)</u>        | <u>725,908</u>  |

## NOTES TO INTERIM ACCOUNTS

### 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 Institute of Certified Public Accountants (“HKICPA”) and Appendix 16 of the Rules Governing the Listing of Securities (“Listing Rules”) on the Stock Exchange of Hong Kong Limited (“Stock Exchange”). These interim accounts should be read in conjunction with the 2004 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 2004.

### 2. Segment information

*Primary reporting format – business segments*

|  | Unaudited<br>Six months ended 30th September 2004 |                      |                                   |                          |                   |
|--|---|----------------------|-----------------------------------|--------------------------|-------------------|
|  | Investment<br>HK\$'000                            | Property<br>HK\$'000 | Retail and<br>trading<br>HK\$'000 | Eliminations<br>HK\$'000 | Group<br>HK\$'000 |
| Turnover                               | <u>21</u>   | <u>20,154</u>        | <u>657,780</u>                    | <u>(5,337)</u>           | <u>672,618</u>    |
| Segment results                        | <u>21</u>   | <u>8,878</u>         | <u>59,585</u>                     |                          | 68,484            |
| Net corporate expenses                 |   |                      |                                   |                          | <u>(16,236)</u>   |
| Operating profit before<br>financing   |   |                      |                                   |                          | 52,248            |
| Finance costs                          |   |                      |                                   |                          | <u>(10,756)</u>   |
| Profit before taxation                 |   |                      |                                   |                          | 41,492            |
| Taxation charge                        |   |                      |                                   |                          | <u>(2,026)</u>    |
| Profit after taxation                  |   |                      |                                   |                          | 39,466            |
| Minority interests                     |   |                      |                                   |                          | <u>–</u>          |
| Profit attributable to<br>shareholders |   |                      |                                   |                          | <u>39,466</u>     |

## 2. Segment information (Continued)

Primary reporting format – business segments (Continued)

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

Secondary reporting format – geographical segments

|                              | Turnover<br>Unaudited<br>Six months ended<br>30th September |                  | Segment results<br>Unaudited<br>Six months ended<br>30th September |                  |
|------------------------------|---|------------------|--|------------------|
|                              | 2004<br>HK\$'000  | 2003<br>HK\$'000 | 2004<br>HK\$'000   | 2003<br>HK\$'000 |
| Hong Kong                    | 362,635   | 300,000          | 19,597   | (3,172)          |
| South East and Far East Asia | 186,756   | 143,867          | 21,424   | 14,599           |
| Europe                       | 91,543  | 101,712          | 20,092   | 20,316           |
| North America                | 13,967  | 6,944            | 7,698  | (57)             |
| Mainland China               | <u>17,717</u>   | <u>7,384</u>     | <u>(327)</u>   | <u>369</u>       |
|                              | <u>672,618</u>  | <u>559,907</u>   | <u>68,484</u>  | <u>32,055</u>    |

### 3. Operating profit before financing

**Unaudited**  
**Six months ended**  
**30th September**  
**2004**                      **2003**  
*HK\$'000*                      *HK\$'000*

Operating profit before financing is stated after charging:

|   |            |              |
|---|------------|--------------|
| Depreciation  |            |              |
| Owned fixed assets                                      | 25,472     | 22,775       |
| Leased fixed assets                                     | 268        | 1,291        |
| Amortisation charge of trademarks                       | 1,136      | 1,056        |
| Loss on disposal of fixed assets                        | 66         | 129          |
| Provision for stock obsolescence and stocks written off | 1,178      | 689          |
| Provision for doubtful debts and bad debts written off  | <u>406</u> | <u>3,261</u> |

### 4. Taxation charge

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the period less relief for available tax losses. 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**  
**2004**                      **2003**  
*HK\$'000*                      *HK\$'000*

|   |              |              |
|---|--------------|--------------|
| Current taxation                          |              |              |
| Overseas profits tax                      | 1,324        | 1,323        |
| Under provision in respect of prior years | <u>702</u>   | <u>—</u>     |
|   | 2,026        | 1,323        |
| Deferred taxation                         | <u>—</u>     | <u>1,865</u> |
| Taxation charge                           | <u>2,026</u> | <u>3,188</u> |

### 5. Dividend

**Unaudited**  
**Six months ended**  
**30th September**  
**2004**                      **2003**  
*HK\$'000*                      *HK\$'000*

|   |              |          |
|---|--------------|----------|
| Interim, declared, of HK\$0.01 (2003: Nil) per ordinary share | <u>9,513</u> | <u>—</u> |
|---|--------------|----------|

At a meeting held on 16th December 2004, the directors declared an interim dividend of HK\$0.01 per ordinary share. This declared dividend is not reflected as a dividend payable in the interim accounts, but will be reflected as an appropriation of retained earnings for the year ended 31st March 2005.

## 6. Earnings per share

The calculation of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$39,466,000 (2003: HK\$2,988,000).

The basic earnings per share is based on the weighted average number of 943,438,384 shares (2003: 936,340,023 shares) in issue during the period. The diluted earnings per share is based on 946,580,231 shares (2003: 938,486,364 shares) which is the weighted average number of shares in issue during the period plus the weighted average number of 3,141,847 shares deemed to be issued at no consideration if all outstanding options had been exercised.

## 7. Debtors and prepayments

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

|   | <b>Unaudited<br/>30th September<br/>2004<br/>HK\$'000</b> | <b>Audited<br/>31st March<br/>2004<br/>HK\$'000</b> |
|---|---|---|
| Trade debtors                           |   |   |
| Below 60 days                           | 21,121  | 19,312  |
| Over 60 days                            | 32,348  | 19,915  |
|   | <hr/>   | <hr/>   |
|   | 53,469  | 39,227  |
| Deposits, prepayments and other debtors | 245,725   | 305,567   |
|   | <hr/>   | <hr/>   |
|   | <u>299,194</u>  | <u>344,794</u>                                      |

## 8. Creditors and accruals

Included in creditors and accruals are trade creditors with the following aging analysis:

|                              | <b>Unaudited<br/>30th September<br/>2004<br/>HK\$'000</b> | <b>Audited<br/>31st March<br/>2004<br/>HK\$'000</b> |
|------------------------------|---|---|
| Trade creditors              |   |   |
| Below 60 days                | 89,002  | 81,622  |
| Over 60 days                 | 78,520  | 63,151  |
|                              | <hr/>   | <hr/>   |
|                              | 167,522   | 144,773   |
| Other creditors and accruals | 157,381   | 132,408   |
|                              | <hr/>   | <hr/>   |
|                              | <u>324,903</u>  | <u>277,181</u>                                      |



## 9. Share capital

|   | Number of<br>shares of<br>HK\$0.1 each |
|---|--|
| Issued and fully paid:                    |  |
| At 1st April 2003 and 30th September 2003 | <u>936,340,023</u>                     |
| At 1st April 2004                         | 943,340,023                            |
| Issue of shares ( <i>note</i> )           | <u>6,000,000</u>                       |
| At 30th September 2004                    | <u>949,340,023</u>                     |

*Note:* During the period, all the share options outstanding as at 31st March 2004 were exercised. 6,000,000 ordinary shares were issued in September 2004 and 2,000,000 ordinary shares were issued in October 2004. The exercise price was HK\$0.248 per ordinary share.

No further share options were exercised, granted or lapsed during the period ended 30th September 2004.

## 10. Long term liabilities

|  | Unaudited<br>30th September<br>2004 | Audited<br>31st March<br>2004 |
|--|-------------------------------------|-------------------------------|
| <i>Note</i>  | <i>HK\$ '000</i>                    | <i>HK\$ '000</i>              |
| Bank loans, secured  | (a) 264,486                         | 268,860                       |
| Loan from a related company  | (b) 11,580                          | 24,580                        |
| Loan from a director   | (c) –                               | 13,444                        |
| Obligations under finance leases                                       | (d) <u>976</u>                      | <u>663</u>                    |
|  | 277,042                             | 307,547                       |
| Amount repayable within one year included<br>under current liabilities | <u>(22,974)</u>                     | <u>(57,278)</u>               |
|  | <u>254,068</u>                      | <u>250,269</u>                |

*Note:*

- (a) The bank loans are repayable as follows:

|  |                |                |
|--|----------------|----------------|
| Not exceeding 1 year                         | 11,085         | 19,025         |
| More than 1 year, but not exceeding 2 years  | 9,591          | 239,211        |
| More than 2 years, but not exceeding 5 years | 186,610        | 10,624         |
| More than 5 years                            | <u>57,200</u>  | <u>–</u>       |
|  | <u>264,486</u> | <u>268,860</u> |

- (b) The loan is unsecured, bears interest at prime rate and wholly repayable within one year.

- (c) The loan balance was wholly repaid on 30th April 2004. It was unsecured, and bore interest at 1.5% per annum above US Dollar best lending rate.

# **10. Long term liabilities (Continued)**

(d) The obligations under finance leases are repayable as follows:

|  | Minimum lease payments             |                                | Present value                      |                                |
|--|------------------------------------|--------------------------------|------------------------------------|--------------------------------|
|  | Unaudited                          | Audited                        | Unaudited                          | Audited                        |
|  | 30th September<br>2004<br>HK\$'000 | 31st March<br>2004<br>HK\$'000 | 30th September<br>2004<br>HK\$'000 | 31st March<br>2004<br>HK\$'000 |
| Not exceeding 1 year                         | 355                                | 270                            | 309                                | 229                            |
| More than 1 year, but not exceeding 2 years  | 303                                | 166                            | 261                                | 138                            |
| More than 2 years, but not exceeding 5 years | 452                                | 320                            | 383                                | 262                            |
| More than 5 years                            | 32                                 | 40                             | 23                                 | 34                             |
|  | <u>1,142</u>                       | <u>796</u>                     | <u>976</u>                         | <u>663</u>                     |
| Future finance charges on finance leases     | (166)                              | (133)                          |                                    |                                |
| Present value of finance lease liabilities   | <u>976</u>                         | <u>663</u>                     |                                    |                                |

# **11. Contingent liabilities**

|                  | Unaudited<br>30th September<br>2004<br>HK\$'000 | Audited<br>31st March<br>2004<br>HK\$'000 |
|------------------|---|---|
| Bills discounted | <u>8,885</u>                                    | <u>5,448</u>                              |

# **12. Commitments**

|   | Unaudited<br>30th September<br>2004<br>HK\$'000 | Audited<br>31st March<br>2004<br>HK\$'000 |
|---|---|---|
| Commitments in respect of expenditure on fixed assets |   |   |
| Contracted but not provided for                       | <u>2,564</u>                                    | <u>–</u>                                  |

# **13. Related party transactions**

|  | Unaudited<br>Six months ended<br>30th September |                  |
|--|---|------------------|
|  | 2004<br>HK\$'000                                | 2003<br>HK\$'000 |
| Purchases of goods from related companies                    | 29,369  | 13,708           |
| Rental income received and receivable from related companies | (a) 881   | 905              |
| Interest income receivable from a related company            | 2,139   | 2,448            |
| Interest expense paid to a related company                   | 349   | 812              |
| Interest expense paid to a director                          | <u>774</u>                                      | <u>399</u>       |

(a) Leases for the use of office premises at Stelux House were renewed on 9th August 2004 for a new term commencing from 15th August 2004 to 31st March 2007 at a monthly rental of HK\$85,536 (for International Optical Manufacturing Company Limited) and HK\$49,450 (for Yee Hing Company Limited) respectively.

Except for the above, the terms of these related party transactions have not changed from those disclosed in the Annual Report 2004.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **REVIEW OF GROUP OPERATIONS**

The Group is pleased to announce a marked increase in profits attributable to shareholders of HK\$39 million for the six months ended 30th September 2004 compared to a profit of HK\$3 million during the same period last year. The directors have declared that an interim dividend of HK\$0.01 per share be payable for the six months ended 30th September 2004.

#### **Retail**

This Division which comprises the Group's three core retail chains, City Chain, Optical 88 and Hipo.fant, reported a more than ten fold increase in profits of HK\$37.8 million for the first six months compared to HK\$3.2 million during the same period last year. Turnover increased by 28% to HK\$537 million. The significant growth in profits was due in part to SARS which had the effect of lowering sales during the corresponding period last year.

Apart from the strong recovery in the retail sector, continued improvements in our gross margins and stringent cost control measures contributed to the good results. Aggressive expansion has continued in Thailand, Malaysia, Singapore, Mainland China and Macau. As of 30th September 2004, the Group has 483 shops/counters, an increase of 65 shops/counters from the same period last year.

Over the next three years, the Group will further invest in its retail businesses. To ensure our retail businesses are not overly reliant on the Hong Kong market, the Group will simultaneously expand its watch and optical businesses in Mainland China, Macau and South East Asia. The Group believes a diversified expansion in the region will improve its yearly sales and profits by up to two-digit figures in the next few years.

#### ***City Chain***

City Chain Hong Kong reported an increase of profits of HK\$18 million up from breakeven during the same time last year. Turnover increased by 34%.

Regionally (excluding mainland China), City Chain subsidiaries generally also reported improved performances. Compared to the first six months of last year, profits have increased by 46% to HK\$15 million and turnover has increased by 27%.

The performance of City Chain operations in Mainland China, although having yet to break-even, continued to meet expectations. Taking advantage of CEPA entry requirements, the expansion of City Chain operations will therefore be expedited.

#### ***Optical 88***

Optical 88 Hong Kong and in the rest of Asia also reported much better results compared to the first six months of the last financial year. Turnover increased by 24% and a profit of HK\$11 million was reported compared to HK\$2 million during the same period last year. We expect results for the optical business in the second half of this financial year will further improve.

During the period under review, our Asian operations reported satisfactory growth in profits with Thailand and Macau in particular contributing to such growth. Although our operations in Guangzhou have yet to report profits, however, taking advantage of CEPA, expansion will be expedited.

## **Retail (Continued)**

### ***Hipo.fant***

Hipo.fant Hong Kong and regionally reported improved performances compared to the corresponding period last year. Losses for the first six months narrowed to HK\$5.6 million down from HK\$8.6 million last year. This was due to two factors – the closure of non-performing shops and improved gross margins. The Group has evaluated Hipo.fant's performance and the future development of this business. Action has been taken for the improvement of its operations. Improved results will be seen in the second half of this financial year.

## **Watch Manufacturing, Export and Trading**

Overall sales turnover at our watch manufacturing, export and trading subsidiaries was unchanged from the same period last year. However, profits for the period under review increased by 66% to HK\$15 million due to the improvement in profit margins.

In November 2004, the trade has been informed that the Group's watch partnership with adidas will come to an end in December 2005. Some short term impact is expected on the sales turnover of our UK trading and Hong Kong export subsidiaries. Although the partnership with adidas has been successful, the contract restricts the Group from entering into licensing arrangements with other brands. Early termination of the contract means the Group has a better opportunity to build a multi-brand watch export business better poised for further long term growth.

The Group has recently signed exclusive watch licenses for the Everlast brand in Europe and Asia and Everlast watches are scheduled for launch at the Basel Fair in Spring of next year.

## **Property Investment**

Rental income in respect of Stelux House for the period was approximately HK\$12 million (2003: HK\$16 million). The average floor area occupied during the period was approximately 76% (2003: 93%).

## **FINANCE**

Of the Group's bank borrowings at balance sheet date was HK\$491 million (at 31st March 2004: HK\$503 million), out of which, HK\$238 million (at 31st March 2004: HK\$253 million) were repayable within 12 months. The Group's gearing ratio at balance sheet date was 0.59 (at 31st March 2004: 0.61), which was calculated based on the Group's bank borrowings and shareholders' funds of HK\$835 million (at 31st March 2004: HK\$820 million).

Of the Group's bank borrowings, 3% (at 31st March 2004: 4%) 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.

## PROSPECTS

The Group will concentrate on the development of its core businesses – watch and optical businesses, especially the development of retail chain stores in the region. It is expected that funds for such investments will come from internal funds and bank borrowings.

Riding on the back of strong resurgence in the retail sectors in Hong Kong and Asian countries where the Group operates and further based on our performance to date in the third quarter of 2004/05, we are optimistic that the Group's overall businesses will achieve satisfactory growth for the rest of the financial year.

## CAPITAL STRUCTURE OF THE GROUP

There was no change in the capital structure of the Group during the period except that all the share options outstanding as at 31st March 2004 were exercised and the details are disclosed in the following section, "Share Option".

## SHARE OPTION

The details of share options granted to the directors are as follows:

|                         | Total outstanding<br>at<br>1st April<br>2004 | at<br>30th September<br>2004 |
|-------------------------|--|------------------------------|
| Mr Joseph C. C. Wong    | 5,000,000                                    | –                            |
| Mr Chu Kai Wah, Anthony | 1,000,000                                    | –                            |
| Mr Lee Shu Chung, Stan  | 1,000,000                                    | –                            |
| Mr Wong Yuk Woon        | 1,000,000                                    | –                            |

*Note:*

These options are granted on 17th January 2000 and exercisable at HK\$0.248 per share during the period from 17th January 2000 to 16th January 2005. These options were exercised during the period with the following details:

|                         | Number of<br>options | Exercise<br>date | Exercise<br>price | Closing price<br>immediately<br>prior to the<br>exercise date | Date of issue<br>of share<br>certificates |
|-------------------------|----------------------|------------------|-------------------|---|---|
| Mr Joseph C. C. Wong    | 5,000,000            | 24-Sep-04        | HK\$0.248         | HK\$0.560   | 28-Sep-04                                 |
| Mr Chu Kai Wah, Anthony | 1,000,000            | 27-Sep-04        | HK\$0.248         | HK\$0.540   | 5-Oct-04                                  |
| Mr Lee Shu Chung, Stan  | 1,000,000            | 27-Sep-04        | HK\$0.248         | HK\$0.540   | 28-Sep-04                                 |
| Mr Wong Yuk Woon        | 1,000,000            | 30-Sep-04        | HK\$0.248         | HK\$0.550   | 5-Oct-04                                  |

## 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 2004, the Group had 2,165 (at 30th September 2003: 1,915) employees. Details of outstanding share options are disclosed in the above section, "Share Option".

## DETAILS OF THE CHARGES ON GROUP ASSETS

At 30th September 2004, certain of the Group's land and buildings amounting to HK\$174,778,000 (at 31st March 2004: HK\$174,616,000), investment properties amounting to HK\$557,000,000 (at 31st March 2004: HK\$557,000,000), bank deposits amounting to HK\$2,328,000 (at 31st March 2004: HK\$2,024,000) and other debtor of HK\$50,000,000 (at 31st March 2004: HK\$50,000,000) were pledged to secure banking facilities granted to the Group.

## DIRECTORS' INTERESTS

Mr Wong Chong Po, Mr Joseph C. C. Wong, Mr Anthony Chu Kai Wah, Mr Stan Lee Shu Chung and Mr Wong Yuk Woon 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 half year ended 30th September 2004 amounted to HK\$3,432,000 (2003: Nil).

As at 30th September 2004, the interests and short positions of the directors, chief executive and their associates in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") (including interests which they are deemed or taken to have under such provisions of the SFO)) as recorded in the register maintained under Section 352 of the SFO or as otherwise notified to the Company were as follows:

All interests disclosed below represent long positions in shares of the Company.

### (a) The Company – Ordinary shares

|                         | Number of shares   |                  |                     |            | Approximate percentage of issued share capital as at 30th September 2004 |
|-------------------------|--------------------|------------------|---------------------|------------|--|
|                         | Personal interests | Family interests | Corporate interests | Total      |  |
| Mr Wong Chong Po        | 3,600,000          | –                | – <sup>#</sup>      | 3,600,000  | 0.38   |
| Mr Joseph C. C. Wong    | 13,181,211         | 10,000           | –                   | 13,191,211 | 1.39   |
| Mr Chu Kai Wah, Anthony | 1,000,000*         | –                | –                   | 1,000,000  | 0.11   |
| Mr Sakorn Kanjanapas    | 391,056            | –                | –                   | 391,056    | 0.04   |
| Mr Lee Shu Chung, Stan  | 2,000,000          | –                | –                   | 2,000,000  | 0.21   |
| Mr Wong Yuk Woon        | 1,000,000*         | –                | –                   | 1,000,000  | 0.11   |

\* 1,000,000 share options had been exercised in September 2004 but the share certificates were issued in October 2004.

<sup>#</sup> The 552,037,741 shares, previously disclosed in the Annual Report 2004, should not be disclosed here as the estate of Mr Wong Chue Meng (the former Chairman of the Company who passed away on 15th June 2003) has a controlling interest in Yee Hing Company Limited.

## DIRECTORS' INTERESTS (Continued)

### (b) Subsidiary companies

|   | Number of shares   |                  |                     | Total   | Approximate percentage of preference shares as at 30th September 2004 |
|---|--------------------|------------------|---------------------|---------|---|
|   | Personal interests | Family interests | Corporate interests |         |   |
| (i) <i>City Chain (Thailand) Company Limited – Preference shares<sup>(1)</sup></i>    |                    |                  |                     |         |   |
| Mr Wong Chong Po  | 200                | –                | 208,800             | 209,000 | 99.52   |
| Mr Joseph C. C. Wong  | 200                | –                | 208,800             | 209,000 | 99.52   |
| Mr Sakorn Kanjanapas  | 200                | –                | 208,800             | 209,000 | 99.52   |
| (ii) <i>Stelux Watch (Thailand) Company Limited – Preference shares<sup>(2)</sup></i> |                    |                  |                     |         |   |
| Mr Wong Chong Po  | 600                | –                | –                   | 600     | 16.67   |
| Mr Joseph C. C. Wong  | 600                | –                | –                   | 600     | 16.67   |
| Mr Sakorn Kanjanapas  | 600                | –                | –                   | 600     | 16.67   |
| (iii) <i>Optical 88 (Thailand) Company Limited – Preference shares<sup>(3)</sup></i>  |                    |                  |                     |         |   |
| Mr Wong Chong Po  | 5,000              | –                | 225,000             | 230,000 | 90.20   |
| Mr Joseph C. C. Wong  | 5,000              | –                | 225,000             | 230,000 | 90.20   |
| Mr Sakorn Kanjanapas  | 5,000              | –                | 225,000             | 230,000 | 90.20   |

#### Notes:

- (1) City Chain (Thailand) Company Limited is a wholly-owned subsidiary of the Company. The preference shares held by certain directors represent preference shares issued by City Chain (Thailand) Company Limited which do not carry any voting rights and which are not entitled to any profit sharing but are only entitled to annual fixed dividends. The corporate interests of each of Mr Wong Chong Po, 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 wholly-owned subsidiary of the Company. The preference shares held by certain directors represent preference shares issued by Stelux Watch (Thailand) Company Limited which do not carry any voting rights and which are not entitled to any profit sharing but are only entitled to annual fixed dividends.
- (3) Optical 88 (Thailand) Company Limited is a wholly-owned subsidiary of the Company. The preference shares held by certain directors represent preference shares issued by Optical 88 (Thailand) Company Limited which do not carry any voting rights and which are not entitled to any profit sharing but are only entitled to annual fixed dividends. The corporate interests of each of Mr Wong Chong Po, Mr Joseph C. C. Wong and Mr Sakorn Kanjanapas in 225,000 preference shares duplicate with each other.

Save as disclosed above, no directors, chief executive of the Company or their associates had any interest or short position 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 Issuers ("Model Code").

## SUBSTANTIAL SHAREHOLDERS

As at 30th September 2004, the following companies (other than directors of the Company as disclosed above) had interests in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

| Name                          | Number of shares | Percentage of shareholding | Note |
|-------------------------------|------------------|----------------------------|------|
| Yee Hing Company Limited      | 415,031,771      | 43.72%                     | (a)  |
| Active Lights Company Limited | 135,653,636      | 14.29%                     | (b)  |
| Thong Sia Company Limited     | 91,032,218       | 9.59%                      | (c)  |

### Notes:

- (a) These shares are held by Yee Hing Company Limited as beneficial owner. The estate of Mr Wong Chue Meng has a controlling interest in Yee Hing Company Limited.
- (b) These shares are held by Active Lights Company Limited as beneficial owner. Active Lights Company Limited is a company controlled by Yee Hing Company Limited.
- (c) These shares are held by Thong Sia Company Limited as beneficial owner. The estate of Mr Wong Chue Meng holds 38% of the issued shares of Thong Sia Company Limited.

All interests disclosed above represent long positions in shares of the Company.

Save as disclosed in Directors' Interests above, so far as the directors are aware, there are no other parties which were, directly or indirectly, interested in 5% or more of the nominal value of the share capital of the Company as at 30th September 2004 as recorded in the register required to be kept by the Company under Section 336 of the SFO.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 28th January 2005 (Friday) to 2nd February 2005 (Wednesday) both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the entitlement to the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Registrar, Computershare Hong Kong Investor Services Limited, 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 27th January 2005 (Thursday). The interim dividend will be paid on 15th February 2005 (Tuesday).

## 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 on the Stock Exchange ("Listing Rules") throughout the period 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.



## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS**

The Company has adopted Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by directors of the Company. The Company confirms that after having made specific enquiry of all its directors, its directors have confirmed that they have complied with the Model Code from 16th June 2004 up to and including 30th September 2004. The directors confirmed in the Group's Annual Report 2004 that they have complied with the Model Code from 31st March 2004 up to and including 15th June 2004.

### **AUDIT COMMITTEE**

Pursuant to the Listing Rules, the Company has set up an audit committee with written terms of reference comprising three independent non-executive directors, namely Mr Kwong Yiu Chung, Dr Chu Chun Keung, Sydney and Mr Wu Chun Sang. The principal responsibilities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls. A meeting of the Audit Committee was held on 9th December 2004 to review the Group's interim results for the period ended 30th September 2004 before they were presented to the board of directors for approval.

On behalf of the Board

**Joseph C. C. Wong**

*Vice Chairman and Chief Executive Officer*

Hong Kong, 16th December 2004

Directors of the Company as at the date hereof:

#### *Executive directors:*

Wong Chong Po (*Chairman*), Chumphol Kanjanapas (alias Joseph C. C. Wong) (*Vice Chairman and Chief Executive Officer*), Anthony Chu Kai Wah, Stan Lee Shu Chung and Wong Yuk Woon.

#### *Non-Executive directors:*

Sakorn Kanjanapas, Kwong Yiu Chung (*independent*), Sydney Chu Chun Keung (*independent*) and Wu Chun Sang (*independent*).