HENGDELI HOLDINGS LIMITED
亨得利控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3389)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		
	2018	2017	YoY change
	RMB'000	*RMB'000*	(%)
Continuing operations:			
Revenue	**2,687,248**	2,439,022	10.2
Profit/(loss) for the year from continuing operations	**79,249**	(45,648)	273.6
Discontinued operations:			
Loss for the year from discontinued operations (see note 16)	**–**	(119,432)	N/A
Profit/(loss) attributable to equity shareholders	**68,746**	(236,382)	129.1

Proposed final dividend of RMB1.2 cents, representing approximately 81.4% distribution from the profit attributable to equity shareholders of the Company for the financial year 2018.

The board (the "Board") of directors (the "Directors") of Hengdeli Holdings Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018 (hereinafter referred to as the "year" or "year under review"), which have been reviewed by the audit committee of the Company.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

(Expressed in Renminbi)

	Note	2018 RMB'000	2017 (Note) RMB'000
Continuing operations:			
Revenue	3	**2,687,248**	2,439,022
Cost of sales		**(2,225,702)**	(2,052,571)
Gross profit		**461,546**	386,451
Other revenue	4	**41,411**	24,802
Other net (loss)/income	4	**(4,454)**	14,649
Distribution costs		**(251,977)**	(251,871)
Administrative expenses		**(140,414)**	(137,958)
Profit from operations		**106,112**	36,073
Finance costs	5(a)	**(2,431)**	(59,931)
Profit/(loss) before taxation	5	**103,681**	(23,858)
Income tax	6	**(24,432)**	(21,790)
Profit/(loss) for the year from continuing operations		**79,249**	(45,648)
Discontinued operations:			
Loss for the year from discontinued operations	16	**–**	(119,432)
Profit/(loss) for the year		**79,249**	(165,080)
Attributable to:			
Equity shareholders of the Company			
– continuing operations		**68,746**	(52,804)
– discontinued operations		**–**	(183,578)
		68,746	(236,382)
Non-controlling interests			
– continuing operations		**10,503**	7,156
– discontinued operations		**–**	64,146
		10,503	71,302
Profit/(loss) for the year		**79,249**	(165,080)
Basic and diluted earnings/(losses) per share	8		
– continuing operations		**RMB0.015**	RMB(0.011)
– discontinued operations		**–**	RMB(0.039)
		RMB0.015	RMB(0.050)

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

(Expressed in Renminbi)

	2018	2017
		(Note (i))
	RMB'000	*RMB'000*
Profit/(loss) for the year	**79,249**	(165,080)
Other comprehensive income for the year (after tax and reclassification adjustments)		
Items that may be reclassified subsequently to profit or loss:		
Available-for-sale securities:		
net movement in the fair value reserve (recycling) *(Note (ii))*	**–**	220,626
Exchange differences on translation of overseas subsidiaries' financial statements	**190,697**	(161,136)
Release of exchange reserve upon disposal of subsidiaries	**–**	52,192
	190,697	111,682
Items that will not be reclassified subsequently to profit or loss:		
Equity investments at fair value through other comprehensive income – net movement in fair value reserves (non-recycling)	**(233,654)**	–
Exchange differences on translation of equity investments at fair value through other comprehensive income	**(11,070)**	–
Exchange differences on translation of the Company's financial statements	**(2,707)**	(42,332)
	(247,431)	(42,332)
Total comprehensive income for the year	**22,515**	(95,730)
Attributable to:		
Equity shareholders of the Company		
– continuing operations	**10,689**	(34,256)
– discontinued operations	**–**	(131,386)
	10,689	(165,642)
Non-controlling interests		
– continuing operations	**11,826**	5,766
– discontinued operations	**–**	64,146
	11,826	69,912
Total comprehensive income for the year	**22,515**	(95,730)

Notes:

(i) The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated.

(ii) This amount arose under the accounting policies applicable prior to 1 January 2018. As part of the opening balance adjustments as at 1 January 2018 the balance of this reserve has been reclassified to fair value reserve (non-recycling) and will not be reclassified to profit or loss in any future periods.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018
(Expressed in Renminbi)

	Note	**2018**	2017
			(Note)
		RMB'000	*RMB'000*
Non-current assets			
Investment properties		**141,419**	145,100
Other property, plant and equipment		**443,660**	387,268
		585,079	532,368
Intangible assets		**1,956**	1,347
Goodwill	*9*	**233,594**	232,307
Other investments		**168,696**	398,724
Prepayment and deposits	*11*	**19,376**	25,416
Deferred tax assets		**7,144**	4,710
		1,015,845	1,194,872
Current assets			
Inventories	*10*	**1,403,251**	1,381,603
Trade and other receivables	*11*	**311,719**	594,106
Deposits with banks	*12*	**638,211**	668,720
Cash and cash equivalents	*13*	**1,551,003**	964,172
		3,904,184	3,608,601
Current liabilities			
Trade and other payables	*14*	**309,666**	258,764
Bank loans	*15*	**60,429**	24,838
Current taxation		**17,314**	553
		387,409	284,155
Net current assets		**3,516,775**	3,324,446
Total assets less current liabilities		**4,532,620**	4,519,318

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2018

(Expressed in Renminbi)

	Note	2018 RMB'000	2017 (Note) RMB'000
Non-current liabilities			
Bank loans	*15*	**83,323**	84,282
Deferred tax liabilities		**1,608**	1,338
		84,931	85,620
NET ASSETS		**4,447,689**	4,433,698
CAPITAL AND RESERVES			
Share capital	*7(b)*	**22,337**	22,429
Reserves		**4,347,114**	4,354,075
Total equity attributable to equity shareholders of the Company		**4,369,451**	4,376,504
Non-controlling interests		**78,238**	57,194
		4,447,689	4,433,698

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated.

NOTES
(Expressed in Renminbi unless otherwise indicated)

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The final results set out in this announcement do not constitute the consolidated financial statements of the Group for the year ended 31 December 2018 but are extracted therefrom.

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Exchange").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets are stated at their fair value as explained in the accounting policies set out below:

– equity investments

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) HKFRS 9, *Financial instruments*

(ii) HKFRS 15, *Revenue from contracts with customers*

(iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(i) HKFRS 9, *Financial instruments*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on retained profits and reserves and the related tax impact at 1 January 2018.

	RMB'000
Retained profits	
Recognition of additional expected credit losses on financial assets measured at amortised cost	**(2,924)**
Related tax	**–**
Net decrease in retained profits at 1 January 2018	**(2,924)**
Fair value reserve (recycling)	
Transferred to fair value reserve (non-recycling) relating to equity securities now measured at FVOCI	**(350,549)**
Fair value reserve (non-recycling)	
Transferred from fair value reserve (recycling) relating to equity securities now measured at FVOCI and increase in fair value reserve (non-recycling) at 1 January 2018	**350,549**
Non-controlling interests	
Recognition of additional expected credit losses on financial assets measured at amortised cost and net decrease in non-controlling interests at 1 January 2018	**(2)**

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017	Reclassification	Remeasurement	HKFRS 9 carrying amount at 1 January 2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets carried at amortised cost				
Trade and other receivables	594,106	–	(2,926)	591,180
Financial assets measured at FVOCI (non-recycling)				
Equity securities *(note)*	–	398,724	–	398,724
Financial assets classified as available-for-sale under HKAS 39 ***(note)***	398,724	(398,724)	–	–

Note:

Under HKAS 39, equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as at FVPL under HKFRS 9, unless they are eligible for and designated at FVOCI by the Group. At 1 January 2018, the Group designated these equity securities at FVOCI, as the investment is held for strategic purposes.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

b. Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost, including cash and cash equivalents and trade and other receivables.

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	RMB'000
Loss allowance at 31 December 2017 under HKAS 39	–
Additional credit loss recognised at 1 January 2018 on:	
– Trade receivables	1,582
– Other receivables	1,344
Loss allowance at 1 January 2018 under HKFRS 9	2,926

c. ***Transition***

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):

  – the determination of the business model within which a financial asset is held; and

  – the designation of certain investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(ii) HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The adoption of HKFRS 15 does not have any material impact on the financial position and the financial results of the Group, except for the nature and effect of the changes on previous accounting policies as set out below:

a. ***Timing of revenue recognition***

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. when the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. when the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced; or

C. when the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

Some of the Group's contract with customers are provision of shop design and decoration service, where the Group provides the service in accordance with the customers' specification and the works are directly performed at customers' premises. These contracts therefore satisfy the criteria for categories B and C for recognising revenue over time during the decoration process, whereas previously the Group did not recognise the revenue until the completion of service. Accordingly, revenue and the associated costs for these contracts are recognised earlier under HKFRS 15 than under HKAS 18.

This change in accounting policy had no material impact on the opening balances as at 1 January 2018. However, in future periods it may have material impact, depending on the progress and timing of completion of shop design and decoration projects.

b. ***Presentation of contract assets and liabilities***

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays non-refundable consideration, or is contractually required to pay non-refundable consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

As a result of the changes in presentation, the Group has made the following classification at 31 December 2018:

(i) "Advance receipts from customers" in respect of advance payments from customers amounting to RMB12,268,000 are now presented as "Contract liabilities" included in "Trade and other payables" (see note 14).

(iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

This Interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

3. REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are retail and wholesale of watches and jewellery with comprehensive related customer services and maintenance, manufacturing of watch accessories, and provision of shop design and decoration service.

Turnover represents the sales value of goods sold to customers, net of value added tax and deduction of any sales discounts and returns.

The Group's customer base is diversified and includes no customer with whom transactions have exceeded 10% of the Group's revenue.

Further details regarding the Group's principal activities are disclosed in note 3(b).

(b) Segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography (mainly in Hong Kong and Taiwan/Malaysia).

In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purpose of resource allocation and performance assessment, given the importance of retail division to the Group, the Group's retail business is separated into two reportable segments on a geographical and products and services basis, as the divisional managers for each of these regions report directly to the senior executive team. All segments primarily derive their retail revenue through their own retail network. No operating segments have been aggregated to form reportable segments.

(i) Segment results and assets

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the profit or loss and assets attributable to each reportable segment on the following basis:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. However, other than reporting inter-segment sales, assistance provided by one segment to another, including sharing of assets, is not measured.

The measure used for reporting segment profit is "gross profit".

Segment assets represent inventories only, without eliminating the unrealised inter-segment profits.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below.

	Continuing operations											
	Retail				All others		Sub-total		Discontinued operations		Total	
	Hong Kong		Taiwan/Malaysia									
	2018	2017 *(Note)*	**2018**	2017 *(Note)*	**2018**	2017 *(Note)*	**2018**	2017 *(Note)*	**2018**	2017 *(Note)*	**2018**	2017 *(Note)*
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**1,898,353**	1,777,065	**195,499**	166,242	**593,396**	495,715	**2,687,248**	2,439,022	**-**	5,115,880	**2,687,248**	7,554,902
Inter-segment revenue	**13**	338	**-**	-	**103,458**	79,988	**103,471**	80,326	**-**	2,198,270	**103,471**	2,278,596
Reportable segment revenue	**1,898,366**	1,777,403	**195,499**	166,242	**696,854**	575,703	**2,790,719**	2,519,348	**-**	7,314,150	**2,790,719**	9,833,498
Reportable segment gross profit	**300,444**	258,641	**47,298**	50,708	**113,804**	77,102	**461,546**	386,451	**-**	1,594,426	**461,546**	1,980,877
Reportable segment assets	**1,072,647**	1,077,986	**193,898**	180,662	**136,752**	122,962	**1,403,297**	1,381,610	**-**	-	**1,403,297**	1,381,610

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11.

Results and assets of the segment below the quantitative thresholds ("All others") are mainly attributable to watch accessories manufacturing business and shop design and decoration business.

(ii) Reconciliations of reportable segment revenues, profit or loss and assets

	Continuing operations		Discontinued operations		Total	
	2018	2017	**2018**	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue						
Revenue for reportable segments	**2,093,865**	1,943,645	**–**	7,257,797	**2,093,865**	9,201,442
Revenue for other segments	**696,854**	575,703	**–**	56,353	**696,854**	632,056
Elimination of inter-segment revenue	**(103,471)**	(80,326)	**–**	(2,198,270)	**(103,471)**	(2,278,596)
Consolidated revenue	**2,687,248**	2,439,022	**–**	5,115,880	**2,687,248**	7,554,902
Profit						
Gross profit for reportable segments	**347,742**	309,349	**–**	1,555,285	**347,742**	1,864,634
Gross profit for other segments	**113,804**	77,102	**–**	39,141	**113,804**	116,243
	461,546	386,451	**–**	1,594,426	**461,546**	1,980,877
Other revenue	**41,411**	24,802	**–**	64,069	**41,411**	88,871
Other net (loss)/income	**(4,454)**	14,649	**–**	6,794	**(4,454)**	21,443
Distribution costs	**(251,977)**	(251,871)	**–**	(1,168,902)	**(251,977)**	(1,420,773)
Administrative expenses	**(140,414)**	(137,958)	**–**	(99,185)	**(140,414)**	(237,143)
Other operating expenses	**–**	–	**–**	(3,260)	**–**	(3,260)
Finance costs	**(2,431)**	(59,931)	**–**	(37,435)	**(2,431)**	(97,366)
Share of profits of joint ventures	**–**	–	**–**	835	**–**	835
Consolidated profit/(loss) before taxation	**103,681**	(23,858)	**–**	357,342	**103,681**	333,484

Assets	2018 *RMB'000*	2017 *RMB'000*
Assets for reportable segments (inventories)	**1,266,545**	1,258,648
Assets for other segments (inventories)	**136,752**	122,962
Elimination of unrealised inter-segment profit	**(46)**	(7)
	1,403,251	1,381,603
Trade, other receivables, prepayment and deposits	**331,095**	619,522
Cash and cash equivalents	**1,551,003**	964,172
Deposits with banks	**638,211**	668,720
Investment properties	**141,419**	145,100
Other property, plant and equipment	**443,660**	387,268
Intangible assets	**1,956**	1,347
Goodwill	**233,594**	232,307
Other investments	**168,696**	398,724
Deferred tax assets	**7,144**	4,710
Consolidated total assets	**4,920,029**	4,803,473

(iii) Geographic information

The following table sets out information about the geographical locations of (i) the Group's revenue from external customers and (ii) the Group's investment properties, other property, plant and equipment, intangible assets, goodwill, prepayment and deposits and other investments ("specified non-current assets"). The geographical locations of customers are based on the locations at which the services were provided or the goods delivered. The geographical locations of the specified non-current assets are based on the physical locations of the assets, in the case of property, plant and equipment, the locations of operations to which they are allocated, in the case of intangible assets and goodwill, and the locations of operations, in the case of prepayment and deposits and other investments.

The Group's businesses are mainly managed in three principal economic environments, Mainland China, Hong Kong and Taiwan/Malaysia.

Revenue from external customers	2018 *RMB'000*	2017 *RMB'000*
Continuing operations:		
Hong Kong	**1,912,296**	1,784,580
Taiwan/Malaysia	**195,499**	166,242
Mainland China	**579,453**	488,200
	2,687,248	2,439,022
Discontinued operations:		
Mainland China	**–**	4,587,574
Hong Kong	**–**	528,306
	–	5,115,880
Total	**2,687,248**	7,554,902

Specified non-current assets	**2018** ***RMB'000***	2017 *RMB'000*
Hong Kong	**441,291**	666,437
Mainland China	**439,718**	396,911
Taiwan/Malaysia	**127,692**	126,814
Total	**1,008,701**	1,190,162

4. OTHER REVENUE AND NET (LOSS)/INCOME

	2018 ***RMB'000***	2017 *RMB'000*
(a) Other revenue		
Continuing operations:		
Interest income	**32,238**	14,623
Government grants	**1,242**	1,305
Rental income from operating leases, other than those relating to investment properties	**71**	618
Rental income from investment properties	**2,852**	1,220
Others	**5,008**	7,036
	41,411	24,802

In 2018, the Group successfully applied for funding support set up by the Guangdong Government. The purpose of the fund is to encourage automation and innovation by granting financial assistance to commercial entities whose industries meet certain criteria.

	2018 ***RMB'000***	2017 *RMB'000*
(b) Other net (loss)/income		
Continuing operations:		
Impairment of goodwill *(note 9)*	**–**	(23,059)
Impairment of intangible assets	**–**	(12,978)
Net foreign exchange (loss)/gain	**(4,508)**	1,809
Net loss on redemption and repurchase of senior notes	**–**	(31,292)
Net gain on disposal of other property, plant and equipment	**54**	935
Gain on disposal of a subsidiary	**–**	79,234
	(4,454)	14,649

5. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging:

	2018	2017
	RMB'000	*RMB'000*
(a) Finance costs		
Continuing operations:		
Interest on bank loans wholly repayable within five years	**2,070**	18,747
Interest on senior notes	**–**	35,706
Bank charges	**361**	5,478
	2,431	59,931
(b) Staff costs		
Continuing operations:		
Salaries, wages and other benefits	**118,580**	115,144
Contributions to defined contribution retirement plans	**12,521**	13,671
	131,101	128,815
(c) Other items		
Continuing operations:		
Amortisation of intangible assets	**579**	512
Depreciation of investment properties and other property, plant and equipment	**32,948**	27,439
Impairment losses of		
– trade receivables	**2,710**	–
– other receivables	**696**	–
Operating lease charges in respect of properties		
– minimum lease payments	**134,613**	140,628
– contingent rents	**1,923**	2,536
Auditors' remuneration	**1,625**	1,573
Cost of inventories#	**2,225,702**	2,052,571

\# Cost of inventories in continuing operations includes RMB88,642,000 (2017: RMB81,472,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges respectively, which amounts are also included in the respective total amounts disclosed separately above or in note 5(b) for each type of expenses.

6. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(i) Taxation in the consolidated statement of profit or loss represents:

Continuing operations:

	2018	2017
	RMB'000	*RMB'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	**15,961**	2,975
Under/(over)-provision in respect of prior years	**102**	(2,804)
	16,063	171
Current tax – Overseas		
Provision for PRC Corporate Income Tax for the year	**10,052**	21,735
Provision for Taiwan Income Tax for the year	**49**	16
Withholding tax	**123**	56,205
	10,224	77,956
Deferred tax		
Origination and reversal of temporary differences	**(1,855)**	(56,337)
Total	**24,432**	21,790

(ii) Reconciliation between tax expense and accounting profit/(loss) at applicable tax rates:

	2018	2017
	RMB'000	*RMB'000*
Profit/(loss) before taxation	**103,681**	(23,858)
Notional tax on profit/(loss) before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**19,387**	8,581
Tax effect of non-taxable income	**(2,296)**	(4,014)
Tax effect of non-deductible expenses	**2,198**	1,583
Under/(over) -provision in respect of prior years	**102**	(2,804)
Effect of tax losses not recognised	**5,041**	18,444
Actual tax expense	**24,432**	21,790

Pursuant to the rules and regulations of the Cayman Islands, the Company is exempt from income tax in the Cayman Islands. In addition, subsidiaries located in jurisdictions other than Hong Kong, Mainland China, Taiwan and Malaysia are not subject to any income tax in these jurisdictions.

The provision for Hong Kong Profits Tax is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year, taking into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year assessment 2017/18 subject to a maximum reduction of HK$30,000 for each business (2017: a maximum reduction of HK$20,000 was granted for the year of assessment 2016/17 and was taken into account in calculating the provision for 2017).

The applicable income tax rate of the Group's Mainland China subsidiaries is 25% (2017: 25%) for the year.

The provision for Taiwan Income Tax is calculated at 20% (2017: 17%) of the estimated assessable profits for the year.

The provision for Malaysia income tax is calculated at 24% of the estimated assessable profits for the year.

7. CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

	2018	2017
	RMB'000	*RMB'000*
Special dividend declared and paid of RMB nil per ordinary share (2017: RMB0.25 per ordinary share)	**–**	1,170,866
Final dividend proposed after the end of the reporting date of RMB0.012 per ordinary share (2017: RMB nil per ordinary share)	**55,952**	–
	55,952	1,170,866

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(b) Share capital

(i) Authorised and issued share capital

	2018		2017	
	Number of shares	**Amount** ***HKD***	Number of shares	Amount *HKD*
Authorised:				
Ordinary shares of HKD0.005 each	**10,000,000,000**	**50,000,000**	10,000,000,000	50,000,000
Issued and fully paid:				
At 1 January	**4,684,526,959**	**23,422,634**	4,779,810,959	23,899,054
Share repurchased	**(21,860,000)**	**(109,300)**	(95,284,000)	(476,420)
At 31 December	**4,662,666,959**	**23,313,334**	4,684,526,959	23,422,634
		equivalent ***RMB'000***		equivalent *RMB'000*
		22,337		22,429

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) ***Purchase of own shares***

During the year, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

Month/Year	**Number of shares repurchased**	**Highest price paid per share** *HKD*	**Lowest price paid per share** *HKD*	**Aggregate price paid** *HKD'000*
April 2018	1,876,000	0.37	0.36	691
May 2018	8,688,000	0.38	0.36	3,208
June 2018	2,896,000	0.38	0.375	1,105
July 2018	8,400,000	0.36	0.35	2,988
				7,992
				equivalent *RMB'000*
				6,763

The total amount paid on the repurchased shares of RMB6,763,000 was paid with cash consideration.

8. EARNINGS/(LOSSES) PER SHARE

(a) Basic earnings/(losses) per share

The calculation of basic earnings/(losses) per share is based on the profit attributable to equity shareholders of the Company of RMB68,746,000 (2017: loss of RMB236,382,000) and the weighted average of 4,665,883,432 ordinary shares (2017: 4,730,187,957 ordinary shares) in issue during the year, calculated as follows:

(i) ***Weighted average number of ordinary shares***

	2018	2017
Issued ordinary shares at 1 January	**4,684,526,959**	4,779,810,959
Effect of shares repurchased *(note 7(b)(ii))*	**(12,311,210)**	(46,764,986)
Effect of shares under share award scheme	**(6,332,317)**	(2,858,016)
Weighted average number of ordinary shares at 31 December	**4,665,883,432**	4,730,187,957

(ii) ***Consolidated profit/(loss) attributable to ordinary equity shareholders of the Company***

	2018 ***RMB'000***	2017 *RMB'000*
Profit/(loss) attributable to equity shareholders of the Company		
– continuing operations	**68,746**	(52,804)
– discontinued operations	**–**	(183,578)
	68,746	(236,382)

(iii) Earnings/(losses) per share

	2018	2017
Basic earnings/(losses) per share		
– continuing operations	**RMB0.015**	RMB(0.011)
– discontinued operations	**–**	RMB(0.039)
	RMB0.015	RMB(0.050)

(b) Diluted earnings/(losses) per share

There were no dilutive potential ordinary shares during the years ended 31 December 2018 and 2017, and therefore, diluted earnings/(losses) per share are the same as basic earnings/(losses) per share.

9. GOODWILL

	RMB'000
Cost:	
At 1 January 2017	549,545
Disposals of discontinued operations	(294,584)
At 31 December 2017	254,961
At 1 January 2018	254,961
Exchange adjustments	1,287
At 31 December 2018	256,248
Accumulated impairment losses:	
At 1 January 2017	(93,718)
Exchange adjustments	405
Impairment loss *(note 4(b))*	(23,059)
Disposals of discontinued operations	93,718
At 31 December 2017, 1 January 2018 and 31 December 2018	(22,654)
Carrying amount:	
At 31 December 2018	233,594
At 31 December 2017	232,307

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units identified according to places of operations and reportable segments as follows:

	2018 ***RMB'000***	2017 *RMB'000*
Retail – Hong Kong	**168,063**	171,163
All others	**65,531**	61,144
	233,594	232,307

The recoverable amounts of the cash-generating units are determined based on value-in-use calculations. The key assumptions for the value-in-use calculations are the discount rate and revenue/gross profit growth rate. The Group prepares cash flow forecasts derived from the two year financial budgets and extrapolates cash flows for the following three to five years based on estimated annual average growth rates in sales ranging from 3% to 8% (2017: 3% to 13%), growth rates in gross profit ratio ranging from 0% to 2% (2017: 0% to 3%), and a discount rate ranging from 14% to 14.5% (2017: 14% to 15%). The discount rates used are pre-tax and reflect specific risks relating to the relevant segments. The growth rates are determined by management based on the performance of the relevant cash-generating units and their estimated future development.

10. INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	2018	2017
	RMB'000	*RMB'000*
Raw materials	**18,403**	15,604
Work in progress	**33,755**	30,565
Finished goods	**1,351,093**	1,335,434
	1,403,251	1,381,603

11. TRADE AND OTHER RECEIVABLES

	31 December 2018	1 January 2018	31 December 2017
	RMB'000	*RMB'000*	*RMB'000*
Current assets			
Trade receivables, net of loss allowance *(note)*	**194,872**	178,199	179,781
Other receivables, net of loss allowance *(note)*	**52,126**	264,024	265,368
Financial assets measured at amortised cost	**246,998**	442,223	445,149
Prepayment and deposits	**64,721**	148,957	148,957
	311,719	591,180	594,106
Non-current assets			
Prepayment and deposits	**19,376**	25,416	25,416
	331,095	616,596	619,522

Note:

Upon the adoption of HKFRS 9, an opening adjustment as at 1 January 2018 was made to recognise additional ECLs on trade and other receivables.

All of the trade and other receivables in current assets are expected to be recovered within one year.

Ageing analysis

The ageing analysis of trade receivables (net of loss allowance) at the end of the reporting period, based on the invoice date, is as follows:

	2018 *RMB'000*	2017 *RMB'000*
Within 3 months	**153,118**	156,651
Over 3 months but less than 12 months	**41,634**	20,369
Over 12 months	**120**	2,761
	194,872	179,781

Trade receivables are due within 30 to 180 days from the date of billing.

12. DEPOSITS WITH BANKS

	2018 *RMB'000*	2017 *RMB'000*
Deposits with original maturities over three months	**638,211**	668,720

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	2018 *RMB'000*	2017 *RMB'000*
Cash at banks and on hand	**1,551,003**	964,172

14. TRADE AND OTHER PAYABLES

	2018 *RMB'000*	2017 *RMB'000*
Trade payables	**195,137**	162,035
Contract liabilities *(note (ii))*	**12,268**	–
Other payables and accrued expenses	**102,261**	81,147
Advance receipts from customers	**–**	15,582
	309,666	258,764

The ageing analysis of trade payables at the end of the reporting period, based on the invoice date is as follows:

	2018 *RMB'000*	2017 *RMB'000*
Within 1 month	**178,784**	133,578
Over 1 month but less than 3 months	**15,803**	8,095
Over 3 months but less than 12 months	**139**	20,075
Over 12 months	**411**	287
	195,137	162,035

Notes:

(i) The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated.

(ii) Upon the adoption of HKFRS 15, advance payments from customers is included in contract liabilities.

15. BANK LOANS

As at 31 December 2018, the bank loans were repayable as follows:

	2018	2017
	RMB'000	*RMB'000*
Within 1 year or on demand	**60,429**	24,838
After 1 year but within 2 years	**4,629**	3,755
After 2 years but within 5 years	**13,887**	11,678
After 5 years	**64,807**	68,849
	83,323	84,282
	143,752	109,120

As at 31 December 2018, the bank loans were secured as follows:

	2018	2017
	RMB'000	*RMB'000*
Bank loans within one year or on demand		
– Secured	**37,315**	3,687
– Unsecured	**23,114**	21,151
	60,429	24,838
Bank loans after one year		
– Secured	**83,323**	84,282
	83,323	84,282
	143,752	109,120

The secured bank loans are all drawn down under certain bank facilities secured by mortgages over certain land and buildings of the Group with an aggregate carrying value of RMB159,374,000 (2017: RMB116,200,000).

As at 31 December 2018 and 2017, the banking facilities were not subject to the fulfilment of the covenants based on the lending arrangements with financial institutions.

16. DISCONTINUED OPERATIONS

On 30 December 2016, the Group entered into a sale and purchase agreement to disposal of its entire equity interest in Shanghai Xinyu Fine Watch Service Co., Ltd. and its subsidiaries ("Xinyu Group"), and 75.54% of Harvest Max Holdings Limited (collectively, the "Disposal Group"). The disposal was completed on 28 June 2017, on which date control of the Disposal Group passed to the acquirer.

The consolidated profit for the period from the discontinued operations is set out below.

	2018	2017
	RMB'000	*RMB'000*
Profit of the discontinued operations for the period	–	274,081
Loss on disposal of discontinued operations	–	(393,513)
	–	(119,432)

(a) Results of discontinued operations

	2018	2017
	RMB'000	*RMB'000*
Revenue	–	5,115,880
Cost of sales	–	(3,521,454)
Other revenue	–	64,069
Other net income	–	6,794
Distribution costs	–	(1,168,902)
Administrative expenses	–	(99,185)
Other operating expenses	–	(3,260)
Finance costs	–	(37,435)
Share of profits of joint ventures	–	835
Income tax	–	(83,261)
Profit from discontinued operations for the period	–	274,081
Attributable to:		
Equity shareholders of the Company	–	209,935
Non-controlling interests	–	64,146
	–	274,081

(b) Cash flows used in discontinued operations

	2018	2017
	RMB'000	*RMB'000*
Net cash generated from operating activities	–	942,034
Net cash generated from investing activities	–	602,360
Net cash used in financing activities	–	(2,028,705)
Net cash flow for the period	–	(484,311)

MANAGEMENT DISCUSSION AND ANALYSIS

I. FINANCIAL REVIEW

The Group maintained a sound and stable financial position.

Revenue

For the year ended 31 December 2018, the Group recorded revenue of RMB2,687,248,000 (2017: RMB2,439,022,000), representing a year-on-year increase of 10.2%, among which retail sales amounted to RMB2,093,852,000 (2017: RMB1,943,307,000), representing a year-on-year increase of 7.7%; the revenue from the industrial group and others amounted to RMB593,396,000 (2017: RMB495,715,000), representing a year-on-year increase of 19.7%.

In 2018, the global political and economic situation remains turbulent. In the first half of the year, the Chinese economy continued the steady and rising trend during 2017. In the second half of the year, due to the ever-changing international situation, market uncertainty rose significantly and downward pressure increased, but the economy maintained a sound and steady growth in general. The Group has adhered to its established strategy of steady and healthy growth, proactively sought breakthroughs by making the best use of opportunities, and achieved better sales revenue.

Breakdown of revenue: (for the year ended 31 December 2018)

	2018		2017	
	RMB'000	***%***	*RMB'000*	*%*
Retail Business				
Hong Kong	**1,898,353**	**70.6**	1,777,065	72.9
Taiwan/Malaysia	**195,499**	**7.3**	166,242	6.8
Industrial Group and others	**593,396**	**22.1**	495,715	20.3
Total	**2,687,248**	**100**	2,439,022	100

Gross profit and gross profit margin

As of 31 December 2018, the Group's gross profit showed a 19.4% year-on-year increase and reached approximately RMB461,546,000 (2017: RMB386,451,000). Gross profit margin was approximately 17.2% (2017: 15.8%), representing a year-on-year increase of 140bps. The increase in gross profit and gross profit margin was mainly due to the further improvement of management level such as the control of discounts.

Profit for the year

During the year under review, the Group recorded a net profit amounting to RMB79,249.000 (2017: loss of RMB165,080,000), representing a year-on-year increase of 148.0%. Profit attributable to equity shareholders amounted to RMB68,746,000 (2017: loss of RMB236,382,000), representing a year-on-year increase of 129.1%. Increase in the profit was mainly due to the increase in revenue and gross profit margin, and decrease in non-recurring financial costs.

Financial status and net debt to equity ratio

The Group maintained a sound and stable financial position. As at 31 December 2018, the Group had total equity of RMB4,447,689,000 (2017: RMB4,433,698,000) and net current assets of RMB3,516,775,000 (2017: RMB3,324,446,000), with cash and cash equivalents and deposits with banks of RMB2,189,214,000 (2017: RMB1,632,892,000) and total bank loans of RMB143,752,000 (2017: RMB109,120,000). As at 31 December 2018, the bank loan amounted to RMB35,000,000 (2017: RMB21,151,000) bore interests at a fixed rate of 5.22% (2017: 1.66% to 2.24%), and the remaining bank loans bore interests at floating rates of 1.70% and 1.89% (2017: 1.75% to 2.11%). As at 31 December 2018, approximately 24% (2017: 0%), 0% (2017: 0%), 0% (2017: 0%) and 76% (2017: 100%) of bank loans were denominated in RMB, HKD, USD and NTD, respectively. The maturity profile of bank loans is set out in note 15 to the accompanying financial statements. During the year under review, there was no sign of significant changes in the Group's demand for loans in a particular quarter.

As at 31 December 2018, the Group's total debt amounted to RMB143,752,000 (2017: RMB109,120,000). The net debt to equity ratio of the Group was approximately zero (2017: zero) (Net debt is defined as total debt (which includes total interest-bearing borrowings) less cash and cash equivalents), which established a solid foundation for the further business expansion of the Group.

The Group adopts prudent treasury policies in financial and cash management, manages bank credit availability and monitors risks of credit cost centrally in various ways. The Group maintains a good partnership with a number of banks which provide financing facilities, and reviews their funding liquidity and financing requirements regularly.

Foreign exchange risk

The Group's transactions are mainly denominated in HKD, RMB and NTD. During the year under review, the foreign exchange movements of such currencies were managed properly. Accordingly, the Group was not exposed to significant risks associated with foreign exchange fluctuations. The Group has not entered into foreign exchange hedging arrangements to manage foreign exchange risk but has been actively monitoring its foreign exchange risk.

Pledge of assets

As at 31 December 2018, the Group had land and buildings equivalent to RMB159,374,000 (2017: RMB116,200,000) pledged as securities for mortgage.

Contingent liabilities

As at 31 December 2018, the Group had no material contingent liabilities (2017: nil).

Current assets

As at 31 December 2018, the current assets of the Group amounted to approximately RMB3,904,184,000 (2017: RMB3,608,601,000), comprising inventories of approximately RMB1,403,251,000 (2017: RMB1,381,603,000), trade and other receivables of approximately RMB311,719,000 (2017: RMB594,106,000), cash and cash equivalents and deposits with banks of approximately RMB2,189,214,000 (2017: RMB1,632,892,000).

As at 31 December 2018, cash and cash equivalents of approximately 7% (2017: 5%), 90% (2017: 94%) and 3% (2017: 1%) were denominated in RMB, HKD and other currencies, respectively.

Current liabilities

As at 31 December 2018, the current liabilities of the Group amounted to approximately RMB387,409,000 (2017: RMB284,155,000), comprising bank loans of approximately RMB60,429,000 (2017: RMB24,838,000), trade and other payables of approximately RMB309,666,000 (2017: RMB258,764,000), and current taxation of approximately RMB17,314,000 (2017: RMB553,000).

Capital structure

The Company's capital structure is composed of issued share capital, reserves and accumulated profits. As at 31 December 2018, the issued share capital of the Company was 4,662,666,959 shares (2017: 4,684,526,959 shares), with reserves and accumulated profits of RMB4,347,114,000 (2017: RMB4,354,075,000) in total.

Significant investment, material acquisition and disposal

The Company has no material acquisitions or disposals of subsidiaries, associates and joint ventures during the year under review, except as disclosed in the notes to the financial statements.

Except as disclosed in the notes to the financial statements, the Company did not hold other significant investments during the year under review.

Final Dividend

The Company recommends the payment of a final dividend of RMB1.2 cents per share for the financial year ended 31 December 2018 (2017: nil) in return for shareholders' support, subject to approval by shareholders at the annual general meeting to be held on Friday, 10 May 2019. The proposed cash dividend will be distributed on or before Friday, 31 May 2019 to shareholders whose names appear on the register of members of the Company on Tuesday, 21 May 2019.

II. BUSINESS REVIEW

During the year under review, the Group's business was primarily focused on the sale of internationally renowned branded watches, comprehensive related customer services and maintenance in Hong Kong, Macau, Taiwan and Malaysia, watch accessories manufacturing and e-commerce, etc.

Retail Network

The Group's retail network is mainly located in Hong Kong, Macau, Taiwan and Malaysia where retail stores mainly included "Elegant", "Hengdeli"/"Watchshoppe", and certain single-brand boutiques. "Elegant" stores are mainly located in Hong Kong, selling high-end internationally renowned branded watches, while "Hengdeli"/"Watchshoppe" stores are mainly located in Taiwan and Malaysia, selling mid-end and mid-to-high-end internationally renowned branded watches. Following the adjustments and optimization, the Group operated a total of 67 retail outlets in above-mentioned regions as at 31 December 2018, details of which are set out below:

	As of 31 December 2018		
	Hong Kong and Macau	**Taiwan/ Malaysia**	**Total**
Elegant	5	1	6
Hengdeli/Watchshoppe	1	35	36
Brand boutiques	8	17	25
Total	14	53	67

The Group has maintained sound business relationships with many world-renowned brand watch suppliers over the years, including SWATCH Group, LVMH Group, RICHEMONT Group and KERING Group, etc. As of 31 December 2018, the Group was engaged in the distribution of over 50 international brands from the above four major brand suppliers and other independent watchmakers, including Breguet, Blancpain, Bulgari, Cartier, Girard-Perregaux, Harry Winston, IWC, Jaeger-LeCoultre, Longines, Mido, Omega, Parmigiani, Vacheron-Constantin, Tissot, Zenith, and Hublot, etc. During the year under review, the Group continued to step up its efforts in adjusting the brands to optimize its brand portfolio, paving the way for long-term business development and stabilizing overall sales performance.

In 2018, the global political and economic situation remained turbulent. In the first half of the year, the Chinese economy continued the steady and rising trend during 2017. In the second half of the year, due to the ever-changing international political and economic situation, market uncertainty rose significantly and downward pressure increased. The overall environment seemed to be stable and sound throughout the year. However, the international political situation remained turbulent and the uncertainty of financial market also increased, which made numerous risks and challenges lingering on corporate operations, especially in the second half of the year. The Group has adhered to its established strategy of steady and healthy growth, proactively sought breakthroughs by making the best use of opportunities, and achieved better business results with a year-on-year increase of 7.7% in overall retail sales, while the profit increased as well.

Hong Kong and Macau

The Group's retail business in Hong Kong mainly focuses on high-end brands, including Blancpain, Breguet, Bulgari, Cartier, Chopard, Richard Mille, Franck Muller, Girard-Perregaux, Harry Winston, IWC, Jaeger-LeCoultre, Omega, Panerai, Piaget, Parmigiani, Vacheron Constantin, Zenith, Glashutte Original, Ulysse Nardin, Jaquet Droz, Breitling, etc. To adapt to diverse consumer preference and changes in the structure and consumption patterns of visitors to Hong Kong in recent years, the Group also started to deploy multi-layer brand positioning in Hong Kong, introducing certain mid-to-high-end brands and marketing some well-known brands from independent international watchmakers such as Urwerk, HYT, Christophe Claret, Greubel Foresy and MB&F, in order to expand its market share and maintain its leading position in Hong Kong.

As of 31 December 2018, the Group operated a total of 13 retail outlets in Hong Kong, of which 5 were multi-brand "Elegant" shops and 8 were single-brand boutiques or image stores, mainly located in prime commercial districts such as Tsim Sha Tsui, Central and Causeway Bay. During the year under review, to satisfy market demand, the Group had made appropriate supplemental adjustments to the brands it sells. MB&F boutique (M.A.D. Gallery), a high-end creative brand, was newly opened in Harbour City, Tsim Sha Tsui, while two brand boutiques of Bulgari and Panerai were newly opened in Times Square, Causeway Bay. Tsim Sha Tsui and Causeway Bay have all long been commercially prosperous districts in Hong Kong. The opening of these new stores not only enriches the retail brands, but contributes to the increase of the Group's sales in Hong Kong.

During the first half of the year under review, Hong Kong's retail market was driven to overall prosperity with the continuously improved political and economic atmosphere in Hong Kong, enthusiastic visitors to Hong Kong and positive consumer sentiment in the local market. However, in the second half of the year, due to the ever-changing international political and economic situation, market uncertainty rose significantly and downward pressure increased, resulting in a slash in sales. Therefore, in view of the whole year, the sales in Hong Kong remained stable as a whole, representing a year-on-year increase of 6.8%. Driven by the continuingly enhanced operation and management level as well as the decreased expense ratio, the sales profit was greatly improved.

During the year, the Group focused on refined operation management by strengthening its staff training at different levels and enhancing the knowledge in watches and the service standards of the frontline staff. Efforts were also made to upgrade the management model and to build up a talent pool to foster a world-class professional sales force. On the other hand, the Group proactively sorted and selected quality brands for expanding its market share. Meanwhile, the Group continued to strengthen its marketing campaigns and enhanced collaboration with large shopping malls. Resources were committed to collaborating more closely with a broadened portfolio of international brands in advertisements, VIP events and other promotional activities. Social networking platforms such as FACEBOOK, Weibo and WeChat were used to establish and maintain sound interaction with consumers, aiming to enhance their awareness of and loyalty for Elegant, and hence to uplift the international reputation of the "Elegant" brand.

At present, the international political and economic situation remains unstable. According to the relevant statistics released by the Census and Statistics Department of Hong Kong, high-end retail business in Hong Kong is relatively more affected. However, with consumption upgrading, the development trend of the Chinese economy at a medium and high speed will continue and the construction of Guangdong-Hong Kong-Macau Greater Bay Area will also enable Hong Kong and Macau to maintain their stability and economic growth of the operating environment. In an environment where challenges and opportunities co-exist, the Group will leverage on its advantage, seeking business opportunities and striving for greater development.

During the year under review, the Group opened a "Hengdeli" watch store at a well-known hotel in Macau. The shop is in the process of nurturing, and its sales for the year remained stable. The Group will respond to the market and proactively seek new cooperation with other partners including brand suppliers to boost the sales in Macau along with Hong Kong.

Taiwan and Malaysia

During the year under review, the Group's retail business in Taiwan was in the process of network building and nurturing. The Group operated a total of 48 retail outlets in Taiwan as of 31 December 2018, mainly located in prime districts including Taipei, Taichung, Kaohsiung, Hsinchu and Chiayi. Except for one "Elegant" shop which sells top-end watches, all other retail outlets are brand boutiques and "Hengdeli" shops which sell mid-end and mid-to-high-end watch brands. Brands of watches sold are mostly mid-end and mid-end to high-end, which mainly include Omega, IWC, Certina, Hamilton, Longines, Rado, TAG Heuer, Tissot and Gucci, etc.

During the year, sales in Taiwan remained stable and did not have much change compared to that of last year. The sales target is still mainly local customers. In view of the current situation, it is anticipated that there will still be no material changes in sales in Taiwan in 2019. The Group will strive for development in a steady state, further improve the network building of retail outlets, promote the improvement of management level and lay a solid foundation for the sales peak.

During the year under review, the Group established a company in Malaysia mainly operating retail and maintenance business of internationally renowned watches. In the first half of the year, the company acquired the "Watchshoppe" business from the local world-renowned watch dealers, primarily including five retail outlets, three of which are located in Kuala Lumpur and two in Penang, all located in the central business district of the city. Following the acquisition, the five outlets were in good operating condition, with desirable improvement in sales and gross profit margin as compared with that before the acquisition. The Group believes that such acquisitions will not only bring new revenue to the Group, but also make Malaysia an important base for the Group to expand the market in places with large Chinese population such as Southeast Asia.

Customer Service and Maintenance

The Group fully realizes that customer relationship is the core competitiveness of the Group, so "cutting-edge technology, efficient management, and considerate services" are the solemn commitments made by the Group to consumers, providing customers with assurance and confidence. The continuing training provided by brand suppliers to the Group's technical personnel and the human resources policy of recruiting talents worldwide have ensured the Group to have its own elite technicians and maintain the word-class cutting edge of maintenance expertise.

The watch repairs and maintenance centers covering Hong Kong and Taiwan ensure the timely delivery of widespread all-round after-sale services to customers. During the year under review, the newly renovated repair and maintenance center in Hong Kong officially opened with its top international watch technicians and high-end maintenance equipments to provide international first-rate watch repair and maintenance services to customers so as to strive for perfection in customer services. The Group has maintained good cooperation relationship with brand suppliers. As of 31 December 2018, the Group has become the maintenance agent for 77 international brands, of which the Group is the exclusive maintenance agent for 10 brands.

Industrial Group

The Group has a relatively mature industry value chain for watch accessories, mainly spanning from the manufacturing of watch accessories and packaging products to commercial space design, production and decoration. The Companies are mainly located in Shanghai, Suzhou, Guangzhou and Dongguan. Our branches and subsidiaries have earned a solid reputation in their respective fields, forming tight relationships, mutual trust and interest sharing with brand suppliers. A wide customer base covering China, Switzerland, the United States and other nations in the Asia Pacific region etc. has been established.

During the year under review, the industrial group implemented the aggressive strategy through timely updates to product design, further perfection in customer services, optimization of product techniques as well as constant improvement in automation and informatization. The continuous deepening of informatization has effectively improved the ability of enterprises in cost management and benefit analysis, providing a solid foundation for enterprise data analysis and strategic decision-making. With the continuous investment and application of automation, the technological process of each company has further improved, greatly improving the product quality and production efficiency, thus making its leading position in the market continue to be enhanced. The management concept of "one-stop commercial space" has been accepted by more and more brand owners in the industry, which has increasingly enriched the Group's customer resources and the collaboration with brands has become more in-depth.

Sound operating environment, progressive strategy and scientific management have enabled various businesses of the industrial group to continuously maintain promising growth momentum in productivity and sale during the year under review. The turnover has increased by 17.2% compared with the same period of last year, achieving further improvement in profits from principal business, as well as constant enhancement of overall strength.

Under the background of the strong industrial strategy of the Chinese government, the Group will seek opportunities to conduct industry integration of the upstream and downstream products, as well as strive for improving leadership in the industry through fully seizing the development opportunities, further strengthening the industrial management together with technical R&D and innovation, taking quality as the priority and driving growth by innovation. Meanwhile, the Group will also further explore the limited diversification of business to expand the business model and enhance its product pipeline. The Group firmly believes that, under the guidance of proactive strategies, the industrial group will achieve a further rapid development.

III. OUTLOOK

At present, the global political and economic situations are complicated, the real economy is still subject to certain growth risks. However, the sound and stable fundamentals in China's economic development remain unchanged, while the overall steady and rising momentum in the long term continues as well. The Group believes that with consumption upgrading, the development trend of the Chinese economy at a medium and high speed will continue. The construction of Guangdong-Hong Kong-Macau Greater Bay Area will also enable the Group to maintain stability and progress of the operating environment and revenue. By continuously leveraging its core competitiveness, the Group will continue to respond to the market and identify new opportunities so as to achieve breakthroughs and expand businesses in an environment where opportunities and challenges co-exist.

In 2019, the Group will continuously adhere to the principle of "maintaining stable and healthy growth and seeking sustainable development". With a pragmatic attitude, we will strive for progress while maintaining stability, and put our heads together to explore and to engage in more in-depth cooperation with brand suppliers and international peers through various ways, and expand the scope and models of operation for newer and broader development, so as to create greater value for both our shareholders and community at large.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Tuesday, 7 May 2019 to Friday, 10 May 2019 (both days inclusive) to confirm the members on the register of members who are eligible to attend and vote at the annual general meeting. In order to establish entitlements to attending and voting at the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, 6 May 2019.

The register of members will be closed from Friday, 17 May 2019 to Tuesday, 21 May 2019 (both days inclusive) to confirm the members on the register of members who are entitled to the proposed final dividend. In order to establish entitlements to the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 16 May 2019.

PURCHASE, SALE OR REPURCHASE OF SECURITIES

During the year under review, the Company repurchased a total of 21,860,000 (2017: 95,284,000) shares listed on the Stock Exchange by way of acquisition from the market. The total consideration paid was approximately HKD7,992,000, including related expenses. The details are as follows:

Date of repurchase of shares	Number of shares repurchased	Highest price per share paid (HKD)	Lowest price per share paid (HKD)	Approximate aggregate consideration (HKD) (excluding related expenses)
26 April 2018	500,000	0.365	0.365	182,500
27 April 2018	376,000	0.36	0.36	135,360
30 April 2018	1,000,000	0.37	0.365	369,940
7 May 2018	364,000	0.36	0.36	131,040
8 May 2018	7,000,000	0.37	0.36	2,559,820
25 May 2018	1,324,000	0.38	0.38	503,120
12 June 2018	812,000	0.38	0.38	308,560
15 June 2018	1,012,000	0.38	0.38	384,560
19 June 2018	1,072,000	0.38	0.375	407,180
3 July 2018	2,148,000	0.36	0.35	766,860
5 July 2018	2,340,000	0.36	0.355	837,880
12 July 2018	1,308,000	0.35	0.35	457,800
18 July 2018	744,000	0.35	0.35	260,400
20 July 2018	1,860,000	0.35	0.35	651,000

All the above repurchased shares had been cancelled on 24 May 2018, 27 June 2018 and 26 July 2018, respectively. The repurchases are in the interests of the Company and its shareholders as a whole with a view to enhancing the net assets value per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

As of 31 December 2018, the issued share capital of the Company was 4,662,666,959 shares (2017: 4,684,526,959 shares).

AUDIT COMMITTEE AND SCOPE OF WORK OF KPMG

The Company has established an audit committee in compliance with the Listing Rules. The audit committee comprises three independent non-executive Directors, namely, Messrs. Cai Jianmin (Chairman), Wong Kam Fai, William and Liu Xueling, with the primary duties of reviewing the accounting principles and practices adopted by the Company as well as material extraordinary items, internal controls, financial reporting, risk management and control matters, which included a review on the audited annual results for the year ended 31 December 2017 and the 2018 interim report. According to the terms of reference of the audit committee adopted and implemented by the Company, the audit committee is responsible for reviewing the accounting principles and practices adopted by the Company as well as material extraordinary items, internal controls and financial reporting matters, and the duties of risk management and control.

During the year, the audit committee of the Company held meetings on 20 March and 21 August 2018 to review the annual and interim financial reports of the Group respectively. All members of the committee namely, Messrs. Cai Jianmin, Wong Kam Fai, William and Liu Xueling, attended the meetings.

The final results of the Company for the year ended 31 December 2018 have been reviewed by the Audit Committee of the Company. The financial figures in this announcement of the Group's results for the year ended 31 December 2018 have been agreed by the Group's auditor, KPMG, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by KPMG in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by KPMG on this announcement.

REMUNERATION COMMITTEE

The Company has established a remuneration committee in compliance with the Listing Rules. During the year under review, the remuneration committee comprises three Directors including Messrs. Liu Xueling (Chairman) and Cai Jianmin, both of whom are independent non-executive Directors, and Mr. Zhang Yuping, the Chairman and an executive Director of the Group. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to Directors and senior management.

The remuneration committee held a total of two meetings during the year to review matters related to the remuneration structure of the Directors and senior management of the Company, and implementation of share award scheme, respectively. All members, namely Messrs. Liu Xueling, Cai Jianmin and Zhang Yuping, attended the meeting.

According to the terms of reference of the remuneration committee adopted by the Company, the remuneration committee acts as a consultant regarding the remuneration matters of the Directors and senior management of the Company, while the Board retains the ultimate power to approve the remuneration of the Directors and senior management.

NOMINATION COMMITTEE

The Company has established a nomination committee in compliance with the Listing Rules. During the year under review, the nomination committee comprises three Directors including Mr. Zhang Yuping (Chairman), an executive Director and the Chairman of the Group, and independent non-executive Directors Messrs. Cai Jianmin and Liu Xueling. The Company has adopted and implemented the terms of reference of the nomination committee. The nomination committee is mainly responsible for making recommendations to the Board on the appointment of Directors and succession planning for the Board.

The nomination committee held one meeting during the year to review the structure, size and composition of the Board of the Company as well as retirement by rotation and re-election of Directors. All members, namely Messrs. Zhang Yuping, Cai Jianmin and Liu Xueling, attended the meeting.

CORPORATE GOVERNANCE

Since its establishment, the Company has been committed to maintaining a high standard of corporate governance practice to ensure transparency of the Group's management, so that the long term development of our shareholders, customers, employees as well as the Group can be safeguarded. The Company has established the Board, an audit committee, a remuneration committee and a nomination committee that are up to the requirements as being diligent, accountable and professional. KPMG has been appointed as the Group's external auditors.

Compliance with the Corporate Governance Code

The Company has adopted the Code on Corporate Governance Practices (the "Corporate Governance Code") set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Directors are of the opinion that the Company had complied with the Corporate Governance Code except for a deviation from provision A.2.1 during the year under review. Given the existing corporate structure, the roles of the chairman and chief executive have not been separated, and both are performed by Mr. Zhang Yuping. Although the roles and duties of the chairman and chief executive officer have been performed by the same individual, all major decisions would only be made after consultation with the Board and, where applicable, by the Board. There are three independent non-executive Directors in the Board. All of them possess adequate independence and therefore the Board considers that the Company has achieved balance of power and provided sufficient assurance for scientific decision-making.

Composition of the Board

To maintain a high level of independence and objectivity in decision making, and to exercise its power of supervising the management of the Group in a comprehensive and equitable manner, the Board of the Group comprises three executive Directors (Messrs. Zhang Yuping (Chairman of the Group), Huang Yonghua and Lee Shu Chung, Stan), one non-executive Directors (Mr. Shi Zhongyang) and three independent non-executive Directors (Messrs. Cai Jianmin, Wong Kam Fai, William and Liu Xueling).

To ensure the Board operates in an independent and accountable manner, the three executive Directors have been assigned with different responsibilities within our operation. Mr. Zhang Yuping, the Chairman, is in charge of the Group's overall management and strategic development, while Mr. Lee Shu Chung, Stan is in charge of the overall business operation of the Group, and Mr. Huang Yonghua is responsible for coordination and supervision.

The three independent non-executive Directors have professional expertise and extensive experience in the areas of accounting, economics, law, computing control and management, and business administration, respectively. They can adequately act for the benefits of our shareholders. Their terms of office are as follows:

Cai Jianmin: 26/9/2017-25/9/2020;
Wong Kam Fai, William: 26/9/2017-25/9/2020;
Liu Xueling: 01/6/2016-31/5/2019.

The one non-executive Director has professional expertise and extensive experience in the areas of law and business management. He can offer supervision to the Company's daily operation, and provide corresponding opinions and recommendations in a timely manner, which is beneficial to the standardised operation of the Company and the safeguarding of the interests of our shareholders. His term of office is as follows:

Shi Zhongyang: 15/2/2018-14/2/2021.

Duties of the Board

The Board of the Company is accountable to the general meetings and performs the following major duties: report duties to the general meetings; execute the resolutions of the general meetings; determine investment solutions and profit distribution solutions of the Company; formulate solutions as to increase or decrease of the registered capital of the Company; prepare plans in respect of the split-up, consolidation, alteration and dissolution of the Company; appoint, dismiss the general manager of the Company and determine his or her remuneration.

In respect of the corporate governance functions, during the year under review, the Board performed corporate governance duties in accordance with the terms of reference. To be specific, the Board mainly performed the following corporate governance duties during the year under review:

- To review the Company's policies and practices on corporate governance;
- To review and monitor the training and continuous professional development of Directors and senior management;
- To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- To review and monitor the code of conduct applicable to Directors and employees; and
- To review the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

Members of the Board are provided with appropriate and sufficient information in a timely manner for their understanding of the latest developments of the Group, which in turn supports the discharge of their duties.

The management of the Company is accountable to the Board and performs the following major duties: report duties to the Board; execute the resolutions of the Board; and complete all the tasks assigned by the Board.

Risk Management and Internal Control

The Group has established effective risk management and internal control systems to provide reasonable (though not absolute) assurance against material misstatement or loss and to manage (rather than eliminate) risks of failing to achieve business objectives. The Board shall be responsible for the risk management and internal control systems and reviewing their effectiveness.

In order to ensure the interests of our shareholders, the Group established an enterprise risk management framework to provide top-down and bottom-up approaches to identify, assess, mitigate and monitor key risks in a proactive and structured manner. The Group established departments dedicated to the supervision and risk control of finance and business operation including an internal audit department. Such departments set up annual internal audit plan and are responsible for performing daily and special internal control procedures in aspects relating to business operation, financial reporting and compliance control and in accordance with the targets set by the senior management, which includes conducting audits and examination of all aspects and at all departments once or twice a year, so as to enhance internal control and ensure the sound development of the enterprise. Such departments will report the audits and examinations results to the audit committee and the Board for them to assess the internal control of the Company and the effectiveness of risk management, any significant failing or weaknesses in internal control, and to take necessary actions promptly to remedy any significant failings or weaknesses. If necessary, such departments will follow up regularly on remedial actions in response to significant internal control failings or weaknesses.

The Company has established disclosure mechanism regarding the procedures of proper information disclosure to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made.

The audit committee and the Board have reviewed the effectiveness of the internal control systems of the Group and completed the annual review on the risk management and internal control systems (including their effectiveness). Based on the reviews made by independent review organisation and the Group's self-assessment of the risk management and internal control systems of the Group, the Group considers that, these systems are effective and adequate, and will continue to review the effectiveness of these systems as well as to further improve the internal administration and control systems of the Company if required.

ATTENDANCE OF THE DIRECTORS AT THE MEETINGS

In 2018, a total of five full Board meetings were held by the Company. Further, an annual general meeting was held. The attendance of the Directors at the meetings was as follows:

Name	Frequency of attendance at the Board meetings	Rate of attendance	Remarks	Frequency of attendance at the annual general meeting	Rate of attendance	Remarks
Zhang Yuping	4	80%	Abstained	1	100%	
Huang Yonghua	5	100%		1	100%	
Lee Shu Chung, Stan	5	100%		1	100%	
Cai Jianmin	5	100%		1	100%	
Shi Zhongyang	5	100%		0	0	By proxy
Chen Jun	2	100%	Resigned on 9 April 2018	0	0	Resigned on 9 April 2018
Wong Kam Fai, William	5	100%		1	100%	
Liu Xueling	5	100%		1	100%	

Members of the Board are provided with appropriate and sufficient information in a timely manner for their understanding of the latest developments of the Group, which in turn supports the discharge of their duties.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Every newly appointed Director will be given an introductory session so as to ensure that he/she will gain appropriate understanding of the Group's business and of his/her duties and responsibilities under the Listing Rules and the relevant statutory and regulatory requirements. The Company provides regular updates on the business development of the Group. The Directors are continually updated on the latest development regarding the Listing Rules and other applicable statutory requirements to ensure compliance with and upkeep of good corporate governance practices.

The Directors are committed to complying with the requirements under provision A.6.5 of the Corporate Governance Code on Directors' training so as to ensure that their contribution to the Board remains informed and relevant. During the year under review, the Directors of the Company attended relevant training in accordance with the Listing Rules and provided the relevant records of training to the Company. According to the records, details of directors' attendance at the training sessions during the year under review are as follows:

	Updates on corporate governance, laws and regulations		Accounting/financial/ management and other professional expertise	
Name	**Material reading**	**Seminar/ training attending**	**Material reading**	**Seminar/ training attending**
Zhang Yuping	✓	✓	✓	✓
Huang Yonghua	✓	✓	✓	✓
Lee Shu Chung, Stan	✓	✓	✓	✓
Shi Zhongyang	✓	✓	✓	✓
Cai Jianmin	✓	✓	✓	✓
Wong Kam Fai, William	✓	✓	✓	✓
Liu Xueling	✓	✓	✓	✓

INDEPENDENCE OF THE BOARD

The Board has received confirmation from all independent Directors regarding their independence made in accordance with Rule 3.13 of the Listing Rules. The Board considers that all current independent Directors have met the requirements of the guidelines set out in Rule 3.13 of the Listing Rules and remained independent.

SECURITIES TRANSACTIONS BY DIRECTORS

The Board had adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the Company's code for securities transactions by its Directors. Following specific enquiry made by the Company with all Directors, the Company has confirmed that during the year under review, all Directors had complied with the standard as required by the above code.

By Order of the Board
Zhang Yuping
Chairman

Hong Kong, 20 March, 2019

As at the date of this announcement, the executive Directors are Mr. Zhang Yuping (Chairman), Mr. Huang Yonghua and Mr. Lee Shu Chung, Stan; the non-executive Director is Mr. Shi Zhongyang; and the independent non-executive Directors are Mr. Cai Jianmin, Mr. Wong Kam Fai, William and Mr. Liu Xueling.