HENGDELI HOLDINGS LIMITED
亨得利控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3389)

2019 INTERIM RESULTS

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		
	2019	2018	YoY change
	RMB'000	*RMB'000*	
	(Unaudited)	(Unaudited)	(%)
Revenue	**1,361,170**	1,344,045	1.3
Gross profit margin	**18.5%**	16.1%	240bps
Profit for the period	**33,414**	34,054	-1.9
Profit attributable to equity shareholders of the Company	**29,925**	30,812	-2.9

A special interim dividend of RMB3.8 cents per ordinary share is declared.

INTERIM RESULTS

The board of directors ("the Board") of Hengdeli Holdings Limited ("the Company") is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries ("the Group") for the six months ended 30 June 2019, along with the comparative figures and selected explanatory notes, which are prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and have been reviewed by the Audit Committee of the Company.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019 – unaudited

(Expressed in Renminbi)

		Six months ended 30 June	
		2019	2018
			(Note)
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**1,361,170**	1,344,045
Cost of sales		**(1,108,837)**	(1,127,367)
Gross profit		**252,333**	216,678
Other revenue	*4(a)*	**20,656**	21,698
Other net loss	*4(b)*	**(4,477)**	(4,030)
Distribution costs		**(139,596)**	(119,522)
Administrative expenses		**(78,369)**	(64,931)
Profit from operations		**50,547**	49,893
Finance costs	*5(a)*	**(5,320)**	(1,294)
Profit before taxation	*5*	**45,227**	48,599
Income tax	*6*	**(11,813)**	(14,545)
Profit for the period		**33,414**	34,054
Attributable to:			
Equity shareholders of the Company		**29,925**	30,812
Non-controlling interests		**3,489**	3,242
Profit for the period		**33,414**	34,054
Earnings per share	*7*		
Basic		**RMB0.006**	RMB0.007
Diluted		**RMB0.006**	RMB0.007

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30 June 2019 – unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2019	2018
			(Note)
	Note	***RMB'000***	*RMB'000*
Profit for the period		**33,414**	34,054
Other comprehensive income for the period (after tax and reclassification adjustments)			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of overseas subsidiaries' financial statements		**2,123**	24,126
		2,123	24,126
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 reserve (non-recycling)	*9*	**4,858**	(100,565)
Exchange differences on translation of equity investments at fair value through other comprehensive income	*9*	**1,974**	865
Exchange differences on translation of the Company's financial statements		**3,655**	11,655
		10,487	(88,045)
Total comprehensive income for the period		**46,024**	(29,865)
Attributable to:			
Equity shareholders of the Company		**42,679**	(33,107)
Non-controlling interests		**3,345**	3,242
Total comprehensive income for the period		**46,024**	(29,865)

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019 – unaudited

(Expressed in Renminbi)

	Note	At 30 June 2019 RMB'000	At 31 December 2018 (Note) RMB'000
Non-current assets			
Investment properties		**139,579**	141,419
Other property, plant and equipment	8	**607,220**	443,660
		746,779	585,079
Intangible assets		**2,017**	1,956
Goodwill		**234,009**	233,594
Other investments	9	**275,293**	168,696
Prepayment and deposits	11	**33,111**	19,376
Deferred tax assets		**4,793**	7,144
		1,296,022	1,015,845
Current assets			
Inventories	10	**1,339,623**	1,403,251
Trade and other receivables	11	**419,399**	311,719
Deposits with banks	12	**375,567**	638,211
Cash and cash equivalents	13	**1,569,271**	1,551,003
		3,703,860	3,904,184
Current liabilities			
Trade and other payables and contract liabilities	14	**225,998**	309,666
Bank loans	15	**73,345**	60,429
Lease liabilities		**89,602**	–
Current taxation		**23,703**	17,314
		412,648	387,409
Net current assets		**3,291,212**	3,516,775
Total assets less current liabilities		**4,587,234**	4,532,620

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2019 – unaudited

(Expressed in Renminbi)

	Note	**At 30 June 2019** *RMB'000*	At 31 December 2018 *(Note)* *RMB'000*
Non-current liabilities			
Bank loans	*15*	**73,454**	83,323
Lease liabilities		**66,562**	–
Deferred tax liabilities		**187**	1,608
		140,203	84,931
NET ASSETS		**4,447,031**	4,447,689
CAPITAL AND RESERVES	*16*		
Share capital		**22,337**	22,337
Reserves		**4,343,111**	4,347,114
Total equity attributable to equity shareholders of the Company		**4,365,448**	4,369,451
Non-controlling interests		**81,583**	78,238
TOTAL EQUITY		**4,447,031**	4,447,689

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six months ended 30 June 2019 – unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2019	2018
			(Note)
	Note	***RMB'000***	*RMB'000*
Operating activities			
Cash generated from operations		**131,427**	79,809
Income tax paid		**(5,423)**	(3,515)
Net cash generated from operating activities		**126,004**	76,294
Investing activities			
Payment for the purchase of other property, plant and equipment		**(29,333)**	(13,221)
Decrease in deposits with banks		**259,555**	309,731
Payment for advances to third parties		**(144,539)**	–
Payment for purchase of other investments		**(99,765)**	–
Other cash flows arising from investing activities		**10,003**	18,696
Net cash generated from investing activities		**(4,079)**	315,206
Financing activities			
Capital element of lease rentals paid		**(53,295)**	–
Interest element of lease rentals paid		**(2,581)**	–
Other cash flows arising from financing activities		**(53,410)**	(2,070)
Net cash used in financing activities		**(109,286)**	(2,070)
Net increase in cash and cash equivalents		**12,639**	389,430
Cash and cash equivalents at 1 January	*13*	**1,551,003**	964,172
Effect of foreign exchange rates changes		**5,629**	28,935
Cash and cash equivalents at 30 June	*13*	**1,569,271**	1,382,537

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Stock Exchange"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 16 August 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the financial year ended 31 December 2018 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory annual consolidated financial statements for the year ended 31 December 2018 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 20 March 2019.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below.

(a) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 17(b).

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. For the Group, low-value assets are typically laptops or office furniture. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(iii) Lessor accounting

The Group leases out its investment properties as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

Under HKFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the Group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. The adoption of HKFRS 16 does not have a significant impact on the Group's financial statements in this regard.

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies

Determining the lease term

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

(c) Transitional impact

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 3.09%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

– the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

– when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

– when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in note 17(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 *RMB'000*
Operating lease commitments at 31 December 2018	197,063
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(3,665)
– leases of low-value assets	(35)
	193,363
Less: total future interest expenses	(6,144)
Present value of remaining lease payments, discounted using the incremental borrowing rates at 1 January 2019	187,219

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018. There is no impact on the opening balance of equity.

The Group presents right-of-use assets that do not meet the definition of investment property in "other property, plant and equipment" and presents lease liabilities separately in the statement of financial position.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 *RMB'000*	Capitalisation of operating lease contracts *RMB'000*	**Carrying amount at 1 January 2019** ***RMB'000***
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Other property, plant and equipment	443,660	187,903	**631,563**
Total non-current assets	1,015,845	187,903	**1,203,748**
Trade and other receivables	311,719	(684)	**311,035**
Total current assets	3,904,184	(684)	**3,903,500**
Lease liabilities – current	–	94,398	**94,398**
Total current liabilities	387,409	94,398	**481,807**
Net current assets	3,516,775	(95,082)	**3,421,693**
Total assets less current liabilities	4,532,620	92,821	**4,625,441**
Lease liabilities – non-current	–	92,821	**92,821**
Total non-current liabilities	84,931	92,821	**177,752**
NET ASSETS	4,447,689	–	**4,447,689**

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to HKFRS 16 is as follows:

	At 30 June 2019 ***RMB'000***	At 1 January 2019 *RMB'000*
Included in "other property, plant and equipment":		
Other properties leased for own use, carried at depreciated cost	**153,405**	187,754
Machinery and equipment, carried at depreciated cost	**95**	149
	153,500	187,903

3 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, and given the importance of retail division to the Group, the Group's retail business is separated into the following 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 the following reportable segments.

(a) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines and geographical location of customers is as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
– Revenue from sales of watches and jewellery	**966,540**	1,072,162
– Revenue from manufacturing of watch accessories	**183,036**	184,857
– Revenue from provision of shop design and decoration service	**108,094**	82,499
– Revenue from other businesses	**103,500**	4,527
	1,361,170	1,344,045
Revenue from other sources		
– Gross rentals from investment properties	**1,530**	1,458
	1,362,700	1,345,503
Disaggregated by geographical location of customers		
– Hong Kong Region (place of domicile)	**864,834**	999,323
– Mainland China	**393,957**	273,341
– Taiwan Region/Malaysia	**103,909**	72,839
	497,866	346,180
	1,362,700	1,345,503

Revenue from provision of shop design and decoration service is recognised progressively over time.

The geographical analysis above includes property rental income from external customers in Mainland China for the six months ended 30 June 2019 of RMB1,530,000 (six months ended 30 June 2018: RMB1,458,000).

(b) Information about profit or loss 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 period is set out below.

	Retail				All others		Total	
	Hong Kong Region		Taiwan Region/Malaysia					
For the six months ended 30 June	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**864,834**	999,323	**103,909**	72,839	**392,427**	271,883	**1,361,170**	1,344,045
Inter-segment revenue	**228**	15	**–**	–	**52,941**	44,086	**53,169**	44,101
Reportable segment revenue	**865,062**	999,338	**103,909**	72,839	**445,368**	315,969	**1,414,339**	1,388,146
Reportable segment gross profit	**156,392**	151,772	**25,009**	18,127	**70,932**	46,779	**252,333**	216,678

	Retail				All others		Total	
	Hong Kong Region		Taiwan Region/Malaysia					
	30 June 2019	31 December 2018	**30 June 2019**	31 December 2018	**30 June 2019**	31 December 2018	**30 June 2019**	31 December 2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Reportable segment assets	**1,035,068**	1,072,647	**181,609**	193,898	**122,946**	136,752	**1,339,623**	1,403,297

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

(c) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2019	2018
		(Note)
	RMB'000	*RMB'000*
Revenue		
Total revenues for reportable segments	**968,971**	1,072,177
Revenue for other segments	**445,368**	315,969
Elimination of inter-segment revenue	**(53,169)**	(44,101)
Consolidated revenue	**1,361,170**	1,344,045
Profit		
Total gross profit for reportable segments	**181,401**	168,663
Gross profit for other segments	**70,932**	48,015
	252,333	216,678
Other revenue	**20,656**	21,698
Other net loss	**(4,477)**	(4,030)
Distribution costs	**(139,596)**	(119,522)
Administrative expenses	**(78,639)**	(64,931)
Finance costs	**(5,320)**	(1,294)
Consolidated profit before taxation	**45,227**	48,599

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

4 OTHER REVENUE AND OTHER NET LOSS

(a) Other revenue

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Interest income	**14,382**	17,407
Rental income	**1,530**	1,458
Government grants	**379**	855
Dividend income from other investments	**2,429**	–
Others	**1,936**	1,978
	20,656	21,698

(b) Other net loss

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Net foreign exchange loss	**(4,066)**	(4,796)
Net (loss)/gain on disposal of other property, plant and equipment	**(411)**	766
	(4,477)	(4,030)

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	Six months ended 30 June	
	2019	2018
		(Note)
	RMB'000	*RMB'000*
Interest expense on bank loans	**1,955**	1,119
Interest on lease liabilities	**2,581**	–
Bank charges	**784**	175
	5,320	1,294

(b) Other items

	Six months ended 30 June	
	2019	2018
		(Note)
	RMB'000	*RMB'000*
Amortisation	**210**	287
Depreciation		
– owned other property, plant and equipment	**19,468**	14,101
– right-of-use assets	**58,953**	–
(Reversal of)/provision for impairment loss on trade and other receivables	**(1,154)**	3,327
(Reversal)/write-down of inventories	**(3,021)**	22,341
Operating lease charges in respect of properties		
– minimum lease payments	**13,543**	70,907
– contingent rents	**279**	835

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

6 INCOME TAX

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Current tax		
Hong Kong Profits Tax	**5,716**	8,583
Mainland China Income Tax	**6,953**	5,382
Other overseas tax	**35**	–
	12,704	13,965
Deferred taxation	**(891)**	580
	11,813	14,545

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2018: 16.5%) to the six months ended 30 June 2019, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2018.

Taxation for other overseas subsidiaries is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries or jurisdictions.

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB29,925,000 (six months ended 30 June 2018: profit attributable to equity shareholders of the Company of RMB30,812,000) and the weighted average of 4,643,937,677 ordinary shares (six months ended 30 June 2018: 4,681,349,057 ordinary shares) in issue during the interim period.

(b) Diluted earnings per share

There were no dilutive potential ordinary shares during the period ended 30 June 2019 and 2018, and therefore, diluted earnings per share are the same as basic earnings per share.

8 OTHER PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

As discussed in note 2, the Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. Further details on the net book value of the Group's right-of-use assets by class of underlying asset are set out in note 2.

During the six months ended 30 June 2019, the Group entered into a number of lease agreements for use of warehouses, retail stores and machinery, and therefore recognised the additions to right-of-use assets of RMB27,179,000. The leases of retail stores contain variable lease payment terms that are based on sales generated from the retail stores and minimum annual lease payment terms that are fixed. These payment terms are common in retail stores in Hong Kong where the Group primarily operates.

(b) Acquisitions of owned assets

During the six months ended 30 June 2019, the Group acquired items of plant and machinery with a cost of RMB29,333,000 (six months ended 30 June 2018: RMB13,221,000).

9 OTHER INVESTMENTS

	At 30 June 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Equity securities designated at FVOCI (non-recycling)		
– Listed securities	**275,293**	168,696

During the period, the Group acquired two listed securities for strategic purpose with cash considerations of RMB45,053,000 and RMB54,712,000 respectively.

10 INVENTORIES

	At 30 June 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Raw materials	**30,945**	18,403
Work in progress	**49,643**	33,755
Finished goods	**1,259,035**	1,351,093
	1,339,623	1,403,251

11 TRADE AND OTHER RECEIVABLES

As of the end of the reporting period, the ageing analysis of trade receivables (which are included in trade and other receivables), based on the invoice date and net of loss allowance, is as follows:

	At 30 June 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Current assets		
Within 3 months	**124,185**	153,118
Over 3 months but less than 12 months	**45,842**	41,634
Over 12 months	**165**	120
Trade receivables, net of loss allowance	**170,192**	194,872
Other receivables	**184,985**	52,126
Prepayment and deposits	**64,222**	64,721
	419,399	311,719
Non-current assets		
Prepayment and deposits	**33,111**	19,376
	452,510	331,095

Note: On the date of transition to HKFRS 16, prepaid lease payments of RMB684,000 previously included in prepayment and deposits were adjusted to right-of-use assets recognised at 1 January 2019. See note 2.

Trade receivables are due within 30 to 180 days from the date of billing. All of the trade and other receivables in current assets are expected to be recovered within one year.

12 DEPOSITS WITH BANKS

	At 30 June 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Deposits with original maturities over three months	**375,567**	638,211

13 CASH AND CASH EQUIVALENTS

As at 30 June 2019 and 31 December 2018, all of the Group's cash and cash equivalents in the consolidated statement of financial position represent cash at bank and cash in hand.

14 TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

As of the end of the reporting period, the ageing analysis of trade payables (which are included in trade and other payables), based on the invoice date, is as follows:

	At 30 June 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Within 1 month	**112,390**	178,784
Over 1 month but less than 3 months	**43,802**	15,803
Over 3 months but less than 12 months	**157**	139
Over 1 year	**208**	411
Trade payables	**156,557**	195,137
Contract liabilities	**10,784**	12,268
Other payables and accrued expenses	**58,657**	102,261
	225,998	309,666

15 BANK LOANS

	At 30 June 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Bank loans within one year or on demand		
– Secured	**51,818**	37,315
– Unsecured	**21,527**	23,114
	73,345	60,429
Bank loans after one year		
– Secured	**73,454**	83,823
	73,454	83,823
	146,799	143,752

At 30 June 2019, the banking facilities of certain subsidiaries were secured by mortgages over their land and buildings with an aggregate carrying value of RMB156,659,000 (31 December 2018: RMB159,374,000) and a bank deposit of RMB14,700,000 (31 December 2018: nil).

16 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

(i) Dividends payable to equity shareholders attributable to the interim period.

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Interim dividend declared after the interim period of RMB0.038 per ordinary share (2018: RMB nil per ordinary share)	**177,181**	–

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

(ii) Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period.

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Final dividends in respect of the previous financial year, approved and paid during the following interim period, of RMB0.012 per ordinary share (six months ended 30 June 2018: RMB nil per ordinary share)	**55,952**	–

(b) Shares granted under share award scheme

Pursuant to a share award scheme approved by the Board in 2015, the Company may purchase its own shares and grant such shares to certain employees or consultants of the Group.

For the six months ended 30 June 2019, the Company granted 30,000,000 shares at nil consideration to the Group's employees under 2015 share award scheme, of which 20,000,000 shares were granted to the Company's directors. The fair value of the employee services received in exchange for the grant of shares is recognised as staff costs in profit or loss with a corresponding increase in capital reserve, which is measured based on the grant date share price of the Company.

17 COMMITMENTS

(a) Capital commitments outstanding at 30 June 2019 not provided for in the interim financial report

	At 30 June 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Contracted for	**97,166**	18,040

(b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	At 31 December 2018 *RMB'000*
Within 1 year	101,652
After 1 year but within 5 years	93,935
After 5 years	1,476
	197,063

The Group is the lessee in respect of a number of properties and items of plant and machinery and office equipment held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 2.

18. MATERIAL RELATED PARTY TRANSACTIONS

	Six months ended 30 June	
	2019 *RMB'000*	2018 *RMB'000*
Recurring transactions		
Shop design and decoration services provided to Xinyu Group	**7,623**	8,745

MANAGEMENT DISCUSSION AND ANALYSIS

During the first half of 2019, the global economy continued the overall trend in the second half of 2018, and experienced volatility and downward trend due to impacts of trade frictions between China and the United States as well as many other unfavourable factors. Downward pressures on the economies of Mainland China, Hong Kong and Macau also increased significantly. Faced with the extremely challenging business environment, the Group has progressed steadily by adapting to the market to secure the overall stability of its health and performance under the joint efforts of all of our staff members, which effectively safeguarded the shareholders' interests.

I. Financial Review

Revenue

For the six months ended 30 June 2019, the Group recorded revenue of RMB1,361,170,000 (six months ended 30 June 2018: RMB1,344,045,000), representing a year-on-year increase of 1.3%; retail sales amounted to RMB968,743,000 (six months ended 30 June 2018: RMB1,072,162,000), representing a year-on-year decrease of 9.6%; industrial group and others recorded revenue of RMB392,427,000 (six months ended 30 June 2018: RMB271,883,000), representing a year-on-year increase of 44.3%.

Under the influence of many unfavourable factors in the global political economy and the geopolitical situation, during the period under review, the sales of renowned branded watches in Hong Kong has faced greater difficulties, recording a decrease in sales as compared with the same period of last year. In view of the relatively stable environment and through strenuous efforts, sales performance in Malaysia has improved, demonstrating a promising prospect. Leveraging on the progressive strategy, the industrial group actively expanded its scale of production, and commenced innovative production models. The Group expanded and deepened its cooperation with brands, so as to enable the relevant businesses to maintain promising growth momentum in both productivity and sales.

Breakdown of Revenue:
(for the six months ended 30 June)

	2019		2018	
	RMB'000	*%*	*RMB'000*	*%*
Retail Business				
Hong Kong Region	**864,834**	**63.6**	999,323	74.4
Taiwan Region/Malaysia	**103,909**	**7.6**	72,839	5.4
Industrial Group and others	**392,427**	**28.8**	271,883	20.2
Total	**1,361,170**	**100**	1,344,045	100

Gross profit and gross profit margin

For the six months ended 30 June 2019, the Group's gross profit amounted to approximately RMB252,333,000 (six months ended 30 June 2018: RMB216,678,000), representing a year-on-year increase of 16.5%. Gross profit margin was approximately 18.5% (six months ended 30 June 2018: 16.1%), representing a year-on-year increase of 240bps. The overall increase in gross profit margin was mainly due to the significant increase in gross profit margin of the industrial group and the healthy inventory level of renowned branded watches, therefore no corresponding provisions were made as last year.

Profit for the period

During the period under review, the Group recorded a net profit amounting to RMB33,414,000 (six months ended 30 June 2018: RMB34,054,000), representing a year-on-year decrease of 1.9%. Profit attributable to equity shareholders amounted to RMB29,925,000 (six months ended 30 June 2018: RMB30,812,000), representing a year-on-year decrease of 2.9%. The decrease in profit was mainly due to the increase in staff costs during the period.

Financial status and net debt to equity ratio

The Group maintained a sound and stable financial position. As at 30 June 2019, the Group had total equity of RMB4,447,031,000 (at 31 December 2018: RMB4,447,689,000) and net current assets of RMB3,291,212,000 (at 31 December 2018: RMB3,516,775,000), with cash and cash equivalents and deposits with banks of RMB1,944,838,000 (at 31 December 2018: RMB2,189,214,000) and total bank loans of RMB146,799,000 (at 31 December 2018: RMB143,752,000). As at 30 June 2019, bank loans bearing interests at fixed rates amounted to a total of RMB47,374,000 (at 31 December 2018: RMB35,000,000), with interest rates of 3.70% and 5.22% (at 31 December 2018: 5.22%), and the remaining bank loans bore interests at floating rates of 1.70% and 1.89% (at 31 December 2018: 1.70% and 1.89%). As at 30 June 2019, approximately 32% (at 31 December 2018: 24%) and 68% (at 31 December 2018: 76%) of bank loans were denominated in RMB and NTD, respectively. The maturity profile of bank loans is set out in the notes to the accompanying financial statements. During the period under review, there was no sign of significant changes in the Group's demand for loans in a particular quarter.

As at 30 June 2019, the Company had bank loans of RMB146,799,000 and total debt of RMB146,799,000 (at 31 December 2018: RMB143,752,000). The net debt to equity ratio of the Company was zero (at 31 December 2018: zero) (Net debt is defined as total debt (which includes total interest-bearing borrowings) less cash and cash equivalents and deposits with banks). It 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 period 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 any foreign exchange hedging arrangements to manage foreign exchange risk but has been actively monitoring its foreign exchange risk.

Pledge of assets

As at 30 June 2019, the Group had land and buildings equivalent to RMB156,659,000 (at 31 December 2018: RMB159,374,000) secured by mortgages and a bank deposit of RMB14,700,000 (at 31 December 2018: nil).

Contingent liabilities

As at 30 June 2019, the Group had no material contingent liabilities (at 31 December 2018: nil).

Current assets

As at 30 June 2019, the current assets of the Group amounted to approximately RMB3,703,860,000 (at 31 December 2018: RMB3,904,184,000), comprising inventories of approximately RMB1,339,623,000 (at 31 December 2018: RMB1,403,251,000), trade and other receivables of approximately RMB419,399,000 (at 31 December 2018: RMB311,719,000), cash and cash equivalents and deposits with banks of approximately RMB1,944,838,000 (at 31 December 2018: RMB2,189,214,000).

As at 30 June 2019, cash and cash equivalents of approximately 8% (at 31 December 2018: 7%), 86% (at 31 December 2018: 90%) and 6% (at 31 December 2018: 3%) were denominated in RMB, HKD and other currencies, respectively.

Current liabilities

As at 30 June 2019, the current liabilities of the Group amounted to approximately RMB412,648,000 (at 31 December 2018: RMB387,409,000), comprising bank loans of approximately RMB73,345,000 (at 31 December 2018: RMB60,429,000), trade and other payables and contract liabilities of approximately RMB225,998,000 (at 31 December 2018: RMB309,666,000), lease liabilities of approximately RMB89,602,000 (at 31 December 2018: nil) and current tax payable of approximately RMB23,703,000 (at 31 December 2018: RMB17,314,000).

Capital structure

The Company's capital structure is composed of issued share capital, reserves and accumulated profits. As at 30 June 2019, the issued share capital of the Company was 4,662,666,959 shares (at 31 December 2018: 4,662,666,959 shares) with reserves and accumulated profits of RMB4,343,111,000 (at 31 December 2018: RMB4,347,114,000) in total.

Significant investment, material acquisition and disposal

The Company has no material acquisitions or disposals of subsidiaries, associates and joint ventures during the period 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 period under review.

II. Business Review

During the period under review, the Group's business was primarily focused on the sales of internationally renowned branded watches in areas including Hong Kong, Macau, Taiwan and Malaysia, comprehensive related customer services and maintenance, 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. The Group operated a total of 71 retail outlets in above-mentioned regions as of 30 June 2019, details of which are set out below:

	As of 30 June 2019			
	Hong Kong and Macau Regions	**Taiwan Region**	**Malaysia**	**Total**
Elegant	**5**	**1**	**0**	**6**
Hengdeli/Watchshoppe	**1**	**33**	**4**	**38**
Brand boutiques	**8**	**17**	**2**	**27**
Total	**14**	**51**	**6**	**71**

The Group has maintained sound business relationships with many world-renowned branded watch suppliers over the years, including SWATCH Group, LVMH Group, RICHEMONT Group and KERING Group, etc. As at 30 June 2019, 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 period under review, the Group continued to step up its efforts in adjusting the brands to optimise its brand portfolio, paving the way for long-term business development and stabilizing overall sales performance.

In the first half of 2019, under the influence of many unfavourable factors in the global political economy and the geopolitical situation, the sales of renowned branded watches in Hong Kong has faced greater difficulties, recording a decrease in sales as compared with the same period of last year. In view of the relatively stable environment and through strenuous efforts, sales and gross profit margin performance in Malaysia has improved, demonstrating a promising prospect. Overall, the sales of renowned branded watches of the Group was stable, with a year-on-year decrease of 9.6%.

Hong Kong and Macau Regions

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, Corum, Baume & Mercier, Montblanc, Longines, Hublot, TAG Heuer, etc. To adapt to the changes in the structure and consumption patterns of visitors to Hong Kong in recent years, the Group also deployed multi-layer brand positioning, introducing certain mid-to-high-end brands and marketing many 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.

During the period under review, the political and economic situation in Hong Kong was rather harsh: due to the continuous trade disputes between China and the United States, geopolitical turmoil, rising commodity prices resulting from the depreciation of RMB, global economic slowdown and other factors, Hong Kong's consumer market continued to slow down, while both local consumers and visitors to Hong Kong maintained a relatively cautious attitude on spending. Under such environment, the Group's sales of renowned branded watches in Hong Kong was significantly affected, with a decrease of 13.5% as compared with the same period of last year.

Despite the unfavourable economic environment, the Group was still committed to making efforts in refined operation management. The Group adapted to the market by actively regulating purchase and sales strategies and optimised its inventory portfolio. Meanwhile, it continuously strengthened its staff training at different levels and enhanced service standards of the frontline staff, with efforts made to upgrade the management model. In addition, the Group continued to strengthen its marketing campaigns: resources were deployed for collaborating more closely with a broadened portfolio of international brands in advertising, 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 and loyalty for the Group's retail brand "Elegant", and hence to uplift the international reputation of the "Elegant" brand.

During the period under review, there were no additional retail outlets opened in Hong Kong. As at 30 June 2019, 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. The Group's retail outlets were mainly located in prime commercial districts such as Tsim Sha Tsui, Central and Causeway Bay. The Group believes that, as the Chinese economy remains at a reasonable level at present with consumption growth at a medium to high speed, the stable and prosperous development of Guangdong-Hong Kong-Macau Greater Bay Area will definitely benefit the Hong Kong market in the long term. Therefore, the Group considers to expand its retail outlets in the commercial district in the second half of the year to further expand its market share in Hong Kong.

During the period under review, the management of the "Hengdeli" renowned branded watch store in Macau adapted to the market by actively adjusting its brand structure, and enhanced the service awareness of its sales staff through continuous training to improve their sales skills. Such measures have enabled the sales of the store to remain stable amid a rather disadvantageous environment. The Group believes that sales in Macau will show greater progress with the continuous improvement of Macau's operating environment.

Taiwan Region and Malaysia

The Group's retail business in Taiwan was in the process of network building and nurturing, mainly focusing on the sales of mid-end and mid-to-high-end watch brands. The Group operated a total of 51 retail outlets in Taiwan as at 30 June 2019, 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 branded watches. Brands sold mainly include Omega, IWC, Certina, Hamilton, Longines, Rado, TAG Heuer, Tissot and Gucci, etc.

During the period under review, having benefited from changes in the environment such as capital market conditions, the wealth effect drove the overall consumer sentiment upward, and the retail market in the Taiwan region showed signs of recovery with a year-on-year increase in both sales amount and sales volume. Although the main sales targets in Taiwan were still local customers, the number of VIP customers in the store continued to grow, and the watch brands sold were increasing, which has enhanced the image and sales space of the store and therefore increased the market share of the Group in Taiwan.

In view of the current political and other situations, it is anticipated that there will be no material changes in sales in Taiwan in the second half of the year. The Group will strive for development in a steady state, further enhance the network building of retail outlets, promote the improvement of management level and lay a solid foundation for the upcoming sales peak.

During the period under review, the Group's management team in Malaysia continued to strengthen its management, improve its brand portfolio, and enhance product knowledge and sales skills of its sales staff. Thanks to their wholehearted dedication, sales of renowned branded watches had maintained a positive growth momentum. The Group believes that Malaysia has more comprehensive opportunities for development, which will bring new revenue to the Group while truly making Malaysia an important base for the Group to expand the market in places with large Chinese populations such as Southeast Asia.

Customer Service and Maintenance

"Cutting-edged technology, efficient management and considerate services" are the solemn commitments made by the Group to consumers, providing consumers with the best 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-edged maintenance expertise.

The real-time repair and maintenance networks in retail stores of all regions and the watch repair and maintenance centers located in Hong Kong, Taiwan and Malaysia ensure timely delivery of all-round after-sale services to customers. Top international watch technicians and high-end maintenance equipments have provided international first-rate watch repair and maintenance services. The Group has also maintained good cooperation relationship with brand suppliers. As at 30 June 2019, the Group has become the maintenance agent for almost 100 international brands, of which 7 brands were exclusive.

Industrial Group

The Group has a rather mature industrial chain for watch accessories manufacturing, mainly spanning from the manufacturing of watch accessories and packaging products to commercial space design, production and decoration. 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 countries in the Asia Pacific region has been established.

During the period under review, the industrial group continued to adopt the progressive strategy, vigorously expanded its scale, enriched its business models, upgraded its product design, refined its service, and continuously improved its automation and informatisation level. With the improvement in research and development level of automation along with its wide application, the workflow of each company has been further improved, which greatly improved the product quality and production efficiency, won recognition from brand customers, thus enhancing its leading position in the market on a continuous basis. The continuous deepening of informatisation has effectively improved the ability in cost management and benefit analysis, providing a solid foundation for the Group's data analysis and strategic decision-making.

Despite the unfavorable operating environment, progressive strategy and scientific management have enabled various businesses of the industrial group to continuously maintain promising growth momentum in both productivity and sales during the period under review. The turnover has increased by 8.9% and net profit has increased by 36.6% as compared with the same period of last year. The major companies showed great improvement in technology level and scale efficiency, achieving further improvement of development potential and competitiveness. During the period under review, the Group was also planning to acquire a piece of land in Hunan, China for the construction of a larger industrial base, with an aim of constantly enhancing the capacity and profits of the industrial group, laying a solid foundation for the Group's sustainable development.

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 in the second half of the year. Meanwhile, the Group will also comprehensively explore the diversification of business to constantly expand the business model and enhance its product pipeline. The Group firmly believes that the industrial group, through its rapid improvement, will provide internal impetus to the Group's development.

III. Social Responsibility and Human Resources

As the cornerstone of its corporate management and social responsibility, the Group has always been advocating the corporate spirit of "mutual respect, shouldering responsibility, close collaboration and ongoing innovations" under the people-oriented core value.

As at 30 June 2019, the Group had a total of 1,904 employees in Hong Kong, Macau, Mainland China, Taiwan and Malaysia. The Group has always been committed to developing and adding value to human resources. The Group implements a standard recruitment system and allocates resources to various kinds of training for our managers, front-line service staff and maintenance technicians, including, among others, the art of management, sales skills, brand knowledge and service awareness, with an aim of enhancing knowledge, marketing skills and service capabilities of our staff. The Group also works with our brand suppliers to provide front-line service staff and maintenance technicians with regular trainings in brand knowledge and maintenance expertise.

The Group offers a competitive remuneration package and various incentives to all employees, and regularly reviews the structure of relevant mechanisms to cope with corporate development needs. The Group grants awarded shares to the general management staff and relevant persons of the Company in recognition of their contributions to the Group and as an incentive for their greater future commitment. The Group also offers other benefits to its employees, including MPF plans, insurance schemes, housing and meal allowances.

Environmental protection is one of the top priorities for the Group's sustainable development. During the period under review, the subsidiaries of the Group's industrial group were in strict compliance with national regulations. Reports on pollutants were submitted regularly to environmental authorities as required. All pollutant emissions including sewage and gas passed annual inspection and met national standards.

The Group has maintained sound business relationships with many world-renowned watch brand suppliers over the years, including SWATCH Group, LVMH Group, RICHEMONT Group and KERING Group, etc. During the period under review, the Group was engaged in the distribution of over 50 internationally renowned brands from the above four major brand suppliers and other independent watchmakers. The branches and subsidiaries of the Group carried out strict quality control procedures on products in full accordance with national quality standards, fully safeguarding the interests of clients and consumers.

Apart from its efforts in achieving business results and creating brand value, the Group also actively participated in public welfare activities. The Group has made contributions to education, healthcare, sports and other welfare undertakings through its donations to The Community Chest of Hong Kong, Po Leung Kuk of Hong Kong and Hong Kong Red Cross etc.

IV. Outlook

At present, the global political and economic situation remains unstable, while there are still many difficulties and issues in economic operation, and downside risks remain evident. However, the Group believes that the favourable long-term fundamentals of the Chinese economy remain unchanged and the developing trend of the economy at a medium to high speed will continue. Visitors to Hong Kong will also support Hong Kong's retail market. The construction of Guangdong-Hong Kong-Macau Greater Bay Area will also enable Hong Kong and Macau to maintain its stability of the operating environment and economic progress. By continuously leveraging its core competitiveness, the Group will continue to identify new opportunities so as to ensure that the enterprise remains healthy and moves forward at a steady pace.

In the second half of the year, by continuously adhering to the principle of "maintaining stable and healthy growth and seeking sustainable development" and the strategy of "seeking progress in stability" and exploiting the synergy effect of internationally renowned branded watch sales and watch accessories manufacturing and services, the Group will engage in more in-depth cooperation with brand suppliers and international peers through various ways in Hong Kong, Southeast Asia and other regions and countries. Focusing on the construction of new industrial production bases, the Group will make full effort in carrying out the diversification process of industrial production, and seek for newer and broader development models, so as to create greater value for both our shareholders and community at large.

DIVIDEND

The Board has declared a special interim dividend of RMB3.8 cents for the six months ended 30 June 2019 (six months ended 30 June 2018: nil) in return for shareholders' support. The cash dividend will be distributed on or before Friday, 13 September 2019 to shareholders whose names appear on the register of members of the Company on Thursday, 5 September 2019.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Monday, 2 September 2019 to Thursday, 5 September 2019 (both days inclusive) to confirm the members on the register of members who are entitled to the special interim dividend. No transfer of shares may be registered during the said period. In order to establish entitlements to the special interim 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 Friday, 30 August 2019.

EQUITY-LINKED AGREEMENTS

Share Award Scheme

On 25 March 2015, a share award scheme was adopted by the Company to recognise the contributions of certain participants to the Company and to attract suitable personnel for the growth and further development of the Company.

Subject to any early termination as may be determined by the Board, the share award scheme shall be valid for a term of ten (10) years commencing on the adoption date. The Board may select any participants, other than any excluded participant, for participation in the share award scheme and determine the award amount for the purchase of the awarded shares to be awarded to the selected participants. The Board is entitled to impose any conditions (including a period of continued service within the Group), as it deems appropriate in its absolute discretion with respect to the entitlement of the selected participants to the awarded shares. No consideration for the awarded shares is needed to be paid by the selected participants to the Company. The Board shall not make any further award of awarded shares which will result in the nominal value of the shares awarded by the Board under the share award scheme exceeding 10% of the issued share capital of the Company as at the adoption date. The maximum number of shares which may be awarded to a selected participant under the share award scheme in a 12-month period shall not exceed 0.5% of the issued share capital of the Company as at the adoption date or such number of shares as determined by the Board from time to time.

The share award scheme shall terminate on the earlier of the 10th anniversary date of the adoption date or such date of early termination (whichever is earlier) as determined by the Board.

During the period under review, the Company granted 30,000,000 awarded shares to seven employees of the Group (three of them being the executive directors of the Company) on 24 April 2019. The closing price of the awarded shares of the Company on the reference date was HKD0.405. The vesting date of the awarded shares was 26 April 2019. Details of the grant of awarded shares are as follows:

	Number of awarded shares (share)
Independent Third Parties	10,000,000
Connected persons	
– Mr. Zhang Yuping	12,000,000
– Mr. Huang Yonghua	4,000,000
– Mr. Lee Shu Chung, Stan	4,000,000
Total	30,000,000

Details of the share award scheme are set out in the announcements of the Company dated 25 March 2015 and 24 April 2019.

Share Option Scheme

At the annual general meeting of the Company held on 15 May 2015, the share option scheme was adopted conditionally.

The share option scheme of the Company (the "Share Option Scheme") was adopted to grant options to selected participants including but not limited to directors and employees of the Group as incentives or rewards for their contributions to the Group. Subject to any early termination as may be determined by the Board, the Share Option Scheme shall be valid and effective for a term of ten (10) years commencing on the adoption date.

Under the Share Option Scheme, subject to the discretion of the directors, there is no minimum period for which an option must be held before it can be exercised. Each option has a maximum valid period of ten years after which the option shall lapse. The total number of shares issued and to be issued upon exercise of the options granted to each of the eligible participants in any 12-month period must not exceed 1% of the shares in issue. The exercise price shall not be less than the higher of: (i) the closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange on the date of offer of that option; (ii) the average of the closing prices per shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer of that option; and (iii) the nominal value of the shares.

Under the Share Option Scheme, the grantee shall accept the option within ten days from the date of the offer to grant the share option and pay HKD1.00 to the Company as consideration for the grant upon acceptance of the option.

As of 30 June 2019, the issued share capital of the Company was 4,662,666,959 shares, and there was no option outstanding (30 June 2018: nil).

PURCHASE, SALE OR REPURCHASE OF SECURITIES

During the period under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities (the first half of 2018: 13,460,000 shares repurchased).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has always been committed to maintaining a high standard of corporate governance to ensure a higher level of transparency in the Group, so as to safeguard the interests of our shareholders as a whole, and ensure cooperative development among our customers, employees and the Group.

The Company has adopted the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Listing Rules.

The directors are of the opinion that the Company complied with the CG Code during the period under review, except for a deviation from the provision A.2.1. Given the existing corporate structure, the roles of the chairman and chief executive officer 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, and (where applicable) by the Board. There are three independent non-executive directors in the Board which is in compliance with the requirements of rules 3.10(1), 3.10(2) and 3.10(A) of the Listing Rules. 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.

ACKNOWLEDGEMENT

The directors would like to take this opportunity to express our sincere thanks to all the shareholders for their continuous support and to all our staff for their dedication and contribution to the Group during the reporting period.

GENERAL INFORMATION

As at the date of this report, 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.

By Order of the Board
Zhang Yuping
Chairman

Hong Kong, 16 August 2019

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