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 ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		
	2019	2018	YoY change
	RMB'000	*RMB'000*	
Revenue	**2,417,181**	2,687,248	-10.0%
Gross profit margin	**16.2%**	17.2%	-100bps
(Loss)/profit for the year	**(324,117)**	79,249	-509.0%
(Loss)/profit attributable to equity shareholders	**(332,520)**	68,746	-583.7%

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 2019 (hereinafter referred to as the "year" or "year under review"), which have been audited by the Company's auditor, ZHONGHUI ANDA CPA LIMITED in accordance with the Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants and reviewed by the audit committee of the Company.

AUDITOR'S AGREEMENT ON THE 2019 ANNUAL RESULTS

Save as reclassification adjustment to a disclosure note 6(b) to the Group's consolidated financial statements, there were no other significant changes in the audited annual results compared to the unaudited annual results contained in the announcement dated 31 March 2020.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2019
(Expressed in Renminbi)

	Note	**2019**	2018
			(Note)
		RMB'000	*RMB'000*
Revenue	*3*	**2,417,181**	2,687,248
Cost of sales		**(2,026,677)**	(2,225,702)
Gross profit		**390,504**	461,546
Other revenue	*4*	**47,493**	41,411
Other net loss	*4*	**(338,066)**	(4,454)
Distribution costs		**(261,342)**	(251,977)
Administrative expenses		**(164,442)**	(140,414)
(Loss)/profit from operations		**(325,853)**	106,112
Finance costs	*5(a)*	**(11,189)**	(2,431)
(Loss)/profit before taxation	*5*	**(337,042)**	103,681
Income tax credit/(expense)	*6*	**12,925**	(24,432)
(Loss)/profit for the year		**(324,117)**	79,249
Attributable to:			
Equity shareholders of the Company		**(332,520)**	68,746
Non-controlling interests		**8,403**	10,503
(Loss)/profit for the year		**(324,117)**	79,249
(Losses)/earnings per share	*8*		
Basic		**RMB(0.071)**	RMB0.015
Diluted		**RMB(0.071)**	RMB0.015

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(i).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2019
(Expressed in Renminbi)

	2019	2018
		(Note)
	RMB'000	*RMB'000*
(Loss)/profit for the year	**(324,117)**	79,249
Other comprehensive income for the year (after tax and reclassification adjustments)		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of overseas subsidiaries' financial statements	**37,466**	190,697
	37,466	190,697
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)	**10,498**	(233,654)
Exchange differences on translation of equity investments at fair value through other comprehensive income	**7,455**	(11,070)
Exchange differences on translation of the Company's financial statements	**27,779**	(2,707)
	45,732	(247,431)
Total comprehensive income for the year	**(240,919)**	22,515
Attributable to:		
Equity shareholders of the Company	**(250,314)**	10,689
Non-controlling interests	**9,395**	11,826
Total comprehensive income for the year	**(240,919)**	22,515

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(i).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019
(Expressed in Renminbi)

	Note	2019 RMB'000	2018 (Note) RMB'000
Non-current assets			
Investment properties		**137,738**	141,419
Property, plant and equipment		**538,087**	443,660
		675,825	585,079
Intangible assets		**1,724**	1,956
Goodwill	*9*	**66,502**	233,594
Other investments		**400,184**	168,696
Prepayment and deposits	*11*	**21,333**	19,376
Deferred tax assets		**34,003**	7,144
		1,199,571	1,015,845
Current assets			
Inventories	*10*	**1,309,758**	1,403,251
Trade and other receivables	*11*	**416,263**	311,719
Current tax recoverable		**2,192**	–
Deposits with banks		**548,115**	638,211
Cash and cash equivalents	*12*	**1,165,169**	1,551,003
		3,441,497	3,904,184
Current liabilities			
Trade and other payables and contract liabilities	*13*	**221,453**	309,666
Bank loans	*14*	**142,094**	60,429
Lease liabilities		**121,586**	–
Current taxation		**25,816**	17,314
		510,949	387,409
Net current assets		**2,930,548**	3,516,775
Total assets less current liabilities		**4,130,119**	4,532,620

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2019

(Expressed in Renminbi)

	Note	**2019**	2018
			(Note)
		RMB'000	*RMB'000*
Non-current liabilities			
Bank loans	*14*	**74,523**	83,323
Lease liabilities		**72,053**	–
Deferred tax liabilities		**1,956**	1,608
		148,532	84,931
NET ASSETS		**3,981,587**	4,447,689
CAPITAL AND RESERVES			
Share capital	*7(b)*	**22,337**	22,337
Reserves		**3,872,278**	4,347,114
Total equity attributable to equity shareholders of the Company		**3,894,615**	4,369,451
Non-controlling interests		**86,972**	78,238
		3,981,587	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(i).

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 2019 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

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

(i) 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.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and there was no impact to the opening balance of equity at 1 January 2019 upon initial application of HKFRS 16. 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 approach are set out below:

a. 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.

b. Lease accounting and transitional impact

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 which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment.

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:

(i) 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;

(ii) 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

(iii) 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 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 rate 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.

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	Capitalisation of operating lease contracts	Carrying amount at 1 January 2019
	RMB'000	*RMB'000*	*RMB'000*
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
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**

c. Impact on the financial result and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

The following tables give an indication of the estimated impact of the adoption of HKFRS 16 on the Group's financial result and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply in 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	2019				2018
	Amounts reported under HKFRS 16 (A) *RMB'000*	Add back: HKFRS 16 impairment, depreciation and interest expense (B) *RMB'000*	Deduct: Estimated amounts related to operating leases as if under HKAS 17 (note 1) (C) *RMB'000*	Hypothetical amounts for 2019 as if under HKAS 17 (D=A+B-C) *RMB'000*	Compared to amounts reported for 2018 under HKAS 17 *RMB'000*
Financial result for year ended 31 December 2019 impacted by the adoption of HKFRS 16:					
(Loss)/profit from operations	**(325,853)**	**230,694**	**124,310**	**(219,469)**	**106,112**
Finance costs	(11,189)	5,678	–	(5,511)	–
(Loss)/profit before taxation	**(337,042)**	**236,372**	**124,310**	**(224,980)**	**103,681**
(Loss)/profit for the year	**(324,117)**	**236,372**	**124,310**	**(212,055)**	**79,249**

	2019			2018
	Amounts reported under HKFRS 16 (A) *RMB'000*	Estimated amounts related to operating leases as if under HKAS 17 (note 1&2) (B) *RMB'000*	Hypothetical amounts for 2019 as if under HKAS 17 (C=A+B) *RMB'000*	Compared to amounts reported under HKAS 17 *RMB'000*
Line items in the consolidated cash flow statement for the year ended 31 December 2019 impacted by the adoption of HKFRS 16:				
Cash generated from operations	191,442	(124,310)	67,132	269,248
Net cash generated from operating activities	**183,205**	**(124,310)**	**58,895**	**259,547**
Capital element of lease rentals paid	(118,632)	118,632	–	–
Interest element of lease rentals paid	(5,678)	5,678	–	–
Net cash (used in)/generated from financing activities	**(293,856)**	**124,310**	**(169,546)**	**24,174**

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

d. Lessor accounting

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.

3. REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are retail 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 at the end of reporting period, 17% and 25% of the Group's revenue come from the largest customer and top five customers respectively.

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 the 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 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 2019 and 2018 is set out below.

	Retail				All others		Total	
	Hong Kong		Taiwan/Malaysia					
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
		(Note)		*(Note)*		*(Note)*		*(Note)*
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**1,461,994**	1,898,353	**216,215**	195,499	**738,972**	593,396	**2,417,181**	2,687,248
Inter-segment revenue	**30,467**	13	**656**	–	**102,286**	103,458	**133,409**	103,471
Reportable segment revenue	**1,492,461**	1,898,366	**216,871**	195,499	**841,258**	696,854	**2,550,590**	2,790,719
Reportable segment gross profit	**217,626**	300,444	**43,613**	47,298	**129,265**	113,804	**390,504**	461,546
Reportable segment assets	**1,020,649**	1,072,647	**167,353**	193,898	**121,779**	136,752	**1,309,781**	1,403,297

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(i).

The retail segment in Hong Kong is mainly engaged in the retail of watch and jewellery in Hong Kong. During the year ended 31 December 2019, impairment losses of RMB168,695,000 and RMB151,215,000 was recognised to reduce the carrying amount of the goodwill and property, plant and equipment allocated to this segment.

The retail segment in Taiwan/Malaysia is mainly engaged in the retail of watch and jewellery in Taiwan region and Malaysia. During the year ended 31 December 2019, an impairment loss of RMB20,942,000 was recognised to reduce the carrying amount of the property, plant and equipment allocated to this segment.

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

	2019	2018
		(Note)
	RMB'000	*RMB'000*
Revenue		
Revenue for reportable segments	**1,709,332**	2,093,865
Revenue for other segments	**841,258**	696,854
Elimination of inter-segment revenue	**(133,409)**	(103,471)
Consolidated revenue	**2,417,181**	2,687,248
Profit		
Gross profit for reportable segments	**261,239**	347,742
Gross profit for other segments	**129,265**	113,804
	390,504	461,546
Other revenue	**47,493**	41,411
Other net loss	**(338,066)**	(4,454)
Distribution costs	**(261,342)**	(251,977)
Administrative expenses	**(164,442)**	(140,414)
Finance costs	**(11,189)**	(2,431)
Consolidated (loss)/profit before taxation	**(337,042)**	103,681

	2019	2018
		(Note)
	RMB'000	*RMB'000*
Assets		
Assets for reportable segments (inventories)	**1,188,002**	1,266,545
Assets for other segments (inventories)	**121,779**	136,752
Elimination of unrealised inter-segment profit	**(23)**	(46)
	1,309,758	1,403,251
Trade, other receivables, prepayment and deposits	**437,596**	331,095
Current tax recoverable	**2,192**	–
Cash and cash equivalents	**1,165,169**	1,551,003
Deposits with banks	**548,115**	638,211
Investment properties	**137,738**	141,419
Property, plant and equipment	**538,087**	443,660
Intangible assets	**1,724**	1,956
Goodwill	**66,502**	233,594
Other investments	**400,184**	168,696
Deferred tax assets	**34,003**	7,144
Consolidated total assets	**4,641,068**	4,920,029

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(i).

(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, 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.

	2019	2018
		(Note)
	RMB'000	*RMB'000*
Revenue from external customers		
Hong Kong	**1,612,425**	1,912,296
Mainland China	**588,541**	579,453
Taiwan/Malaysia	**216,215**	195,499
Total	**2,417,181**	2,687,248
Specified non-current assets		
Hong Kong	**536,144**	441,291
Mainland China	**508,858**	439,718
Taiwan/Malaysia	**120,566**	127,692
Total	**1,165,568**	1,008,701

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(i).

4. OTHER REVENUE AND OTHER NET LOSS

	2019	2018
	RMB'000	*RMB'000*
(a) Other revenue		
Interest income	**31,915**	32,238
Dividend income from other investments	**7,309**	–
Rental income from investment properties	**2,640**	2,852
Rental income from operating leases, other than those relating to investment properties	**732**	71
Government grants	**742**	1,242
Others	**4,155**	5,008
	47,493	41,411

In 2019, the Group successfully applied for funding support set up by the Shanghai Government. The purpose of the fund is to grant financial assistance to commercial entities whose profitability meet certain criteria.

	2019	2018
	RMB'000	*RMB'000*
(b) Other net loss		
Impairment of goodwill *(note 9)*	**(168,695)**	–
Impairment of property, plant and equipment	**(172,157)**	–
Net foreign exchange gain/(loss)	**3,254**	(4,508)
Net (loss)/gain on disposal of property, plant and equipment	**(468)**	54
	(338,066)	(4,454)

5. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging:

		2019	2018
			(Note)
		RMB'000	*RMB'000*
(a)	**Finance costs**		
	Interest on bank loans	**4,819**	2,070
	Interest on lease liabilities	**5,678**	–
	Bank charges	**692**	361
		11,189	2,431
(b)	**Staff costs**		
	Salaries, wages and other benefits	**145,183**	118,580
	Contributions to defined contribution retirement plans	**14,930**	12,521
		160,113	131,101
(c)	**Other items**		
	Amortisation of intangible assets	**504**	579
	Depreciation		
	– Investment properties and property, plant and equipment	**36,091**	32,948
	– Right-of-use assets	**101,251**	–
	Impairment losses of		
	– Trade receivables	**156**	2,710
	– Other receivables	**1,505**	696
	– Goodwill	**168,695**	–
	– Property, plant and equipment	**172,157**	–
	Total minimum lease payments for leases previously classified as operating leases under HKAS 17*	**–**	134,613
	Expenses relating to short-term leases and leases of low-value assets	**31,335**	–
	Variable lease payments not included in the measurement of lease liabilities	**482**	1,923
	Auditors' remuneration	**3,174**	2,708
	Cost of inventories#	**2,026,677**	2,225,702

* The Group has initially applied HKFRS 16 using the modified retrospective approach 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. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See Note 2(i).

\# Cost of inventories includes RMB85,646,000 (2018: RMB88,642,000) 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

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

	2019	2018
	RMB'000	*RMB'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	**3,596**	15,961
(Over)/under-provision in respect of prior years	**(721)**	102
	2,875	16,063
Current tax – Overseas		
Provision for PRC Corporate Income Tax for the year	**9,620**	10,052
Provision for Taiwan Income Tax for the year	**239**	49
Under-provision in respect of prior years	**150**	–
Withholding tax	**–**	123
	10,009	10,224
Deferred tax		
Origination and reversal of temporary differences	**(25,809)**	(1,855)
Total	**(12,925)**	24,432

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

	2019	2018
	RMB'000	*RMB'000*
(Loss)/profit before taxation	**(337,042)**	103,681
Notional tax on (loss)/profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**(51,719)**	19,387
Tax effect of non-taxable income	**(4,531)**	(2,296)
Tax effect of non-deductible expenses	**35,141**	2,198
(Over)/under-provision in respect of prior years	**(571)**	102
Effect of tax losses not recognised	**8,755**	5,041
Actual tax expense	**(12,925)**	24,432

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% (2018: 16.5%) of the estimated assessable profits for the year, 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 HKD2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision of the Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2018.

The provision for Hong Kong Profits Tax for 2019 is taken into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year assessment 2018/19 subject to a maximum reduction of HKD20,000 for each business (2018: a maximum reduction of HKD30,000 was granted for the year of assessment 2017/18 and was taken into account in calculating the provision for 2018).

The applicable income tax rate of the Group's Mainland China subsidiaries is 25% (2018: 25%) for the year.

The provision for Taiwan Income Tax is calculated at 20% (2018: 20%) of the estimated assessable profits for the year.

The provision for Malaysia Income Tax is calculated at 24% (2018: 24%) of the estimated assessable profits for the year.

7. CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2019	2018
	RMB'000	*RMB'000*
Interim dividend declared and paid of RMB0.038 per ordinary share (2018: RMB nil per ordinary share)	**177,181**	–
Final dividend proposed after the end of the reporting date of RMB nil per ordinary share (2018: RMB0.012 per ordinary share)	**–**	55,952
	177,181	55,952

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.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2019	2018
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.012 per share (2018: nil per share)	**55,952**	–
	55,952	–

(b) Share capital

Authorised and issued share capital

	2019		2018	
	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	**4,662,666,959**	**23,313,334**	4,684,526,959	23,422,634
Share repurchased	**–**	**–**	(21,860,000)	(109,300)
At 31 December	**4,662,666,959**	**23,313,334**	4,662,666,959	23,313,334
		equivalent ***RMB'000***		equivalent *RMB'000*
		22,337		22,337

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.

8. (LOSSES)/EARNINGS PER SHARE

(a) Basic (losses)/earnings per share

The calculation of basic (losses)/earnings per share is based on the loss attributable to equity shareholders of the Company of RMB332,520,000 (2018: profit of RMB68,746,000) and the weighted average of 4,653,379,288 ordinary shares (2018: 4,665,883,432 ordinary shares) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	2019	2018
Issued ordinary shares at 1 January	**4,662,666,959**	4,684,526,959
Effect of shares repurchased	**–**	(12,311,210)
Effect of shares under share award scheme	**(9,287,671)**	(6,332,317)
Weighted average number of ordinary shares at 31 December	**4,653,379,288**	4,665,883,432

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

	2019	2018
	RMB'000	*RMB'000*
(Loss)/profit attributable to equity shareholders of the Company	**(332,520)**	68,746

(iii) ***(Losses)/earnings per share***

	2019	2018
Basic (losses)/earnings per share	**RMB(0.071)**	RMB0.015

(b) Diluted (losses)/earnings per share

There were no dilutive potential ordinary shares during the years ended 31 December 2019 and 2018, and therefore, diluted (losses)/earnings per share are the same as basic (losses)/earnings per share.

9. GOODWILL

	RMB'000
Cost:	
At 1 January 2018	254,961
Exchange adjustments	1,287
At 31 December 2018	256,248
At 1 January 2019	256,248
Exchange adjustments	1,803
At 31 December 2019	258,051
Accumulated impairment losses:	
At 1 January 2018, 31 December 2018 and 1 January 2019	(22,654)
Exchange adjustments	(200)
Impairment loss for the year	(168,695)
At 31 December 2019	(191,549)
Carrying amount:	
At 31 December 2019	66,502
At 31 December 2018	233,594

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:

	2019	2018
	RMB'000	*RMB'000*
Retail – Hong Kong	**–**	168,063
All others	**66,502**	65,531
	66,502	233,594

Retail – Hong Kong

During the year ended 31 December 2019, as a result of the intensified trade frictions between the China and the U.S. and the recent social and political unrest in Hong Kong, consumer traffic visiting Hong Kong has been severely affected and the profitability of stores in Hong Kong in 2019 significantly declined compared to 2018. Management estimated the recoverable amount of the cash-generating unit. As at 31 December 2019, the carrying amount of the respective cash-generating unit has been reduced to its recoverable amount of approximately RMB497,408,000 and an impairment loss of RMB168,695,000 was recognised, to write down the 100% of the allocated goodwill.

For the retail business in Hong Kong, 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 -51.9% to 65.9% (2018: 3% to 8%), growth rates in gross profit ratio ranging from -6% to 1% (2018: 0% to 1.5%), and at a discount rate of 14% (2018: 14%). 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.

Others

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 15% (2018: 3% to 13%), growth rates in gross profit ratio ranging from 0% to 2% (2018: -1% to 1%), and at a discount rate of 14.5% (2018: 14.5%). 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:

	2019	2018
	RMB'000	*RMB'000*
Raw materials	**22,132**	18,403
Work in progress	**34,940**	33,755
Finished goods	**1,252,686**	1,351,093
	1,309,758	1,403,251

	2019	2018
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**1,987,625**	2,187,104
Write down of inventories	**49,890**	46,819
Reversal of write-down of inventories	**(10,838)**	(8,221)
	2,026,677	2,225,702

11. TRADE AND OTHER RECEIVABLES

	31 December 2019	1 January 2019	31 December 2018
	RMB'000	*RMB'000*	*RMB'000*
Current assets			
Trade receivables, net of loss allowance	**161,219**	194,872	194,872
Other receivables, net of loss allowance	**187,903**	52,126	52,126
Financial assets measured at amortised cost	**349,122**	246,998	246,998
Prepayment and deposits *(note)*	**67,141**	64,037	64,721
	416,263	311,035	311,719
Non-current assets			
Prepayment and deposits	**21,333**	19,376	19,376
	437,596	330,411	331,095

Note: On the date of transition of HKFRS 16, prepaid lease of RMB684,000 previously included in "Prepayment and deposits" were adjusted to right-of-use assets recognised at 1 January 2019, see note 2(i).

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

Other receivables include advances to third parties of RMB129,241,000 (2018: nil), which are interest bearing at 6% to 8% per annum as at 31 December 2019 and are recoverable within one year. The advances to third parties are fully secured by collaterals obtained by the Group as at 31 December 2019.

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:

	2019 *RMB'000*	2018 *RMB'000*
Within 3 months	**155,740**	153,118
Over 3 months but less than 12 months	**5,420**	41,634
Over 12 months	**59**	120
	161,219	194,872

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

12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	2019 *RMB'000*	2018 *RMB'000*
Cash at banks and on hand	**1,165,169**	1,551,003

13. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

	31 December 2019 *RMB'000*	31 December 2018 *RMB'000*
Trade payables	**131,789**	195,137
Contract liabilities	**15,904**	12,268
Other payables and accrued expenses	**73,760**	102,261
	221,453	309,666

Ageing analysis

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

	2019 *RMB'000*	2018 *RMB'000*
Within 1 month	**108,979**	178,784
Over 1 month but less than 3 months	**18,422**	15,803
Over 3 months but less than 12 months	**4,108**	139
Over 12 months	**280**	411
	131,789	195,137

14. BANK LOANS

As at 31 December 2019, the bank loans were repayable as follows:

	2019	2018
	RMB'000	*RMB'000*
Within 1 year or on demand	**142,094**	60,429
After 1 year but within 2 years	**4,658**	4,629
After 2 years but within 5 years	**13,973**	13,887
After 5 years	**55,892**	64,807
	74,523	83,323
	216,617	143,752

As at 31 December 2019, the bank loans were secured as follows:

	2019	2018
	RMB'000	*RMB'000*
Bank loans within one year or on demand		
Secured	**54,836**	37,315
Unsecured	**87,258**	23,114
	142,094	60,429
Bank loans after one year		
Secured	**74,523**	83,323
	74,523	83,323
	216,617	143,752

Certain secured bank loans are all drawn down under certain bank facilities secured by mortgages over certain land and buildings of the Group with aggregate carrying values of RMB142,163,000 (2018: RMB159,374,000).

Certain secured bank loans are all drawn down under certain bank facilities secured by guarantees over fixed deposits of the Group with aggregate carrying values of RMB14,700,000 (2018: Nil).

As at 31 December 2019 and 2018, the banking facilities were not subject to the fulfilment of the covenants based on the lending arrangements with financial institutions.

MANAGEMENT DISCUSSION AND ANALYSIS

I. FINANCIAL REVIEW

The Group maintained a sound and stable financial position.

Revenue

For the year ended 31 December 2019, the Group recorded revenue of RMB2,417,181,000 (2018: RMB2,687,248,000), representing a year-on-year decrease of 10.0%, among which retail sales amounted to RMB1,678,209,000 (2018: RMB2,093,852,000), representing a year-on-year decrease of 19.9%; the revenue from the industrial group and others amounted to RMB738,972,000 (2018: RMB593,396,000), representing a year-on-year increase of 24.5%.

In 2019, the global situation was turbulent, risks increased significantly, and the global economic growth continued to slow down. Downward pressure on the economy of China increased due to the impacts of trade frictions between China and the United States, as well as many other unfavourable factors. The economy of Hong Kong was greatly impacted by the geopolitical turmoil, which led to a rather significant drop in our results. However, sales of the industrial group still managed to increase due to the favourable operating environment in China and the wholehearted dedication of the Group.

Breakdown of revenue: (for the year ended 31 December 2019)

	2019		2018	
	RMB'000	*%*	*RMB'000*	*%*
Retail Business				
Hong Kong	**1,461,994**	**60.5**	1,898,353	70.6
Taiwan/Malaysia	**216,215**	**8.9**	195,499	7.3
Industrial Group and others	**738,972**	**30.6**	593,396	22.1
Total	**2,417,181**	**100**	2,687,248	100

Gross profit and gross profit margin

As of 31 December 2019, the Group's gross profit amounted to approximately RMB390,504,000 (2018: RMB461,546,000), representing a year-on-year decrease of 15.4%. Gross profit margin was approximately 16.2% (2018: 17.2%), representing a year-on-year decrease of 100bps. The decrease in gross profit and gross profit margin was mainly due to the decrease in the retail revenue resulted from the impact of the economic environment and other factors such as the increase in the inventory provisions.

Loss for the year

The Group recorded a loss of approximately RMB324,117,000 during the year (profit for 2018 amounted to RMB79,249,000). Loss attributable to equity shareholders amounted to approximately RMB332,520,000 (profit attributable to equity shareholders for 2018 amounted to approximately RMB68,746,000). The loss was mainly due to the decrease in retail revenue in Hong Kong influenced by the political situation and economic environment, the impairment of goodwill of the Hong Kong retail business and the impairment of the right-of-use assets related to the Hong Kong retail business, the impairment of property, plant and equipment, and the inventory provision.

Financial status and net debt to equity ratio

The Group maintained a sound and stable financial position. As at 31 December 2019, the Group had total equity of RMB3,981,587,000 (2018: RMB4,447,689,000) and net current assets of RMB2,930,548,000 (2018: RMB3,516,775,000), with cash and cash equivalents and deposits with 1,713,284,000 (2018: RMB2,189,214,000) and total bank loans of RMB216,617,000 (2018: RMB143,752,000). As at 31 December 2019, the bank loan amounted to RMB102,733,000 (2018: RMB35,000,000) bore interests at a fixed rate of 3.59% to 5.10% (2018: 5.22%), and the remaining bank loans bore interests at floating rates of 1.70% to 3.06% (2018: 1.70% to 1.89%). As at 31 December 2019, approximately 18% (2018: 24%), 29% (2018: 0%), 47% (2018: 76%) and 6% (2018: 0%) of bank loans were denominated in RMB, HKD, NTD and USD, respectively. The maturity profile of bank loans is set out in note 14 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 2019, the Group's total debt amounted to RMB216,617,000 (2018: RMB143,752,000). The net debt to equity ratio of the Group was approximately zero (2018: 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 its funding liquidity and financing needs 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 2019, the Group had land and buildings equivalent to RMB142,163,000 (2018: RMB159,374,000) pledged as securities for mortgage.

Contingent liabilities

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

Current assets

As at 31 December 2019, the current assets of the Group amounted to approximately RMB3,441,497,000 (2018: RMB3,904,184,000), comprising inventories of approximately RMB1,309,758,000 (2018: RMB1,403,251,000), trade and other receivables of approximately RMB416,263,000 (2018: RMB311,719,000), current tax recoverable of approximately RMB2,192,000 (2018: RMB nil), cash and cash equivalents and deposits with banks of approximately RMB1,713,284,000 (2018: RMB2,189,214,000).

As at 31 December 2019, cash and cash equivalents of approximately 11% (2018: 7%), 77% (2018: 90%) and 12% (2018: 3%) were denominated in RMB, HKD and other currencies, respectively.

Current liabilities

As at 31 December 2019, the current liabilities of the Group amounted to approximately RMB510,949,000 (2018: RMB387,409,000), comprising bank loans of approximately RMB142,094,000 (2018: RMB60,429,000), trade and other payables of approximately RMB221,453,000 (2018: RMB309,666,000), lease liabilities of approximately RMB121,586,000 (2018: RMB nil) and current taxation of approximately RMB25,816,000 (2018: RMB17,314,000).

Capital structure

The Company's capital structure is composed of issued share capital, reserves and accumulated profits. As at 31 December 2019, the issued share capital of the Company was 4,662,666,959 shares (2018: 4,662,666,959 shares), with reserves and accumulated profits of RMB3,872,278,000 (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 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.

COVID-19

Subsequent to the end of the reporting period, the outbreak of COVID-19 in January 2020 has caused disruptions to many industries, including retail industry in Hong Kong. These disruptions have inevitably posed a significant threat to the global economy in 2020. Despite the challenges, governments and international organizations have implemented a series of measures to contain the epidemic. The time duration and scope of these disruptions cannot be accurately assessed at this point in time. Given the dynamic nature of these circumstances, the financial impact will be reflected in the Group's subsequent financial statements. The Group will closely monitor the development of the epidemic and assess its impact on its operations.

Final Dividend

The Board does not recommend the payment of any final dividend for the year ended 31 December 2019 (2018: RMB1.2 cents per share).

II. BUSINESS REVIEW

During the year under review, the Group's business was primarily focused on the sale of internationally renowned-brand 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-brand watches, while "Hengdeli"/"Watchshoppe" stores are mainly located in Taiwan and Malaysia, selling mid-end and mid-to-high-end internationally renowned-brand watches. Following the adjustments and optimization, the Group operated a total of 77 retail outlets in above-mentioned regions as of 31 December 2019, details of which are set out below:

	As of 31 December 2019		
	Hong Kong and Macau	**Taiwan/ Malaysia**	**Total**
Elegant	7	1	8
Hengdeli/Watchshoppe	1	37	38
Brand boutiques	13	18	31
Total	21	56	77

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 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 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 2019, world economic growth remained weak amid continuing global turmoil and significantly higher levels of risk exposure. Due to the various unfavorable factors, including China-US trade friction, the downward pressure on China's economy increased. These have brought various risks and challenges to the corporate operations, especially in the second half of the year. Hong Kong's economy suffered severely amid the geopolitical unrest. As a result, the Group's overall sales of renowned watches dropped significantly and we recorded a notable decline in performance, a decrease of 19.9% as compared to the same period last year.

Hong Kong and Macau

The Group's retail business in Hong Kong mainly focuses on high-end brands, including Blancpain, Breguet, Bulgari, Cartier, Chopard, Franck Muller, Girard-Perregaux, Harry Winston, IWC, Jaeger-LeCoultre, Omega, Panerai, Piaget, Parmigiani, Vacheron Constantin, Zenith, Glashutte Original, Ulysse Nardin, Jaquet Droz, Breitling, etc. In order 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 HYT, Christophe Claret, Greubel Forsey, MB&F, Armin Strom, Moritz Grossmann, in order to expand its market share and maintain its leading position in Hong Kong.

As of 31 December 2019, the Group operated a total of 20 retail outlets in Hong Kong, including 7 multi-brand Elegant shops and 13 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, the Group opened several new shops in K11 MUSEA and other shopping malls in Tsim Sha Tsui. These shops were planned to be invested during the first half of the year, when Hong Kong's business environment was still favorable. Considering that these shops are located in prosperous commercial districts in Hong Kong, with prime locations and excellent brands, they will not only enrich the retail brands of watches, but also greatly help the Group to improve its overall sales in Hong Kong. However, it was unexpected that Hong Kong's geopolitical conditions would suddenly change during the second half of the year and the business would plunge. As of now, there is still no sign of easing off.

During the year under review, the political and economic situation in Hong Kong was extremely grim. The continuous China-US trade disputes, the geopolitical unrest, the rise in commodity prices caused by the devaluation of the RMB and the downturn in the global economy continually weakened the sentiment in Hong Kong's consumer market. The number of visitors thus continued to decrease, while local consumers and a very small number of visitors maintained a cautious consumption attitude. In such an environment, the Group's sales of renowned watches in Hong Kong have been significantly affected, with a decrease of 23.0% compared with the same period last year.

Despite the unfavourable business environment, the Group remained committed to intensive operation management, continuously strengthened the training of employees at all levels. The Group improved the services at the front-line, strengthened talent reservoir and segmenting, and strived to reform the management model. In addition, the Group has continuously strengthened its marketing, actively allocated more resources in marketing, and worked more closely with more international brands in advertising, VIP activities and other promotional activities. Through social networking platforms such as Facebook, Weibo and WeChat, we established and maintained good interactions with consumers, to seize opportunities.

The global political turmoil has been growing more severely recently, world economy has not yet recovered from its slowdown, and the geopolitical unrest that has been troubling Hong Kong society has not shown any sign of easing off. Coupled with the impact of epidemic, Hong Kong economy is still suffering from unprecedented pressure, which makes business operations difficult. The Group will adapt to market conditions, take advantage of the situation and actively seek breakthroughs to ensure the long-term stability of the Group.

During the year under review, the operation of the "Hengdeli" store in Macau was basically similar to that in Hong Kong, with no significant increase in sales.

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 50 retail outlets in Taiwan as of 31 December 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 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 basically 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 political and other situations, it is anticipated that there will still be no breakthroughs in sales in Taiwan in 2020. The Group will strive for stable development and improve its management.

The Group operates six stores in Malaysia, selling mid- to high-end brands, mainly including Certina, Hamilton, Longines, Rado, TAG Heuer, Tissot, Montblanc, Mido, Maurice Lacroix, Oris, and Bell & Ross. During the year under review, Malaysia team continued to strengthen its management, improved brand portfolio, and enhanced sales staff's knowledge of products and sales skills. As a result of these efforts, our sales of renowned-brand watches in Malaysia maintained a good momentum of increase during the first half of the year. However, in the second half of the year, as the surrounding political situation and brand operations have brought about significant adverse effects on the sales, profits from main operations have declined.

Customer Service and Maintenance

"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 world-class cutting edge of 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 top quality 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 2019, the Group has become the maintenance agent for 108 international brands, of which the Group is the exclusive maintenance agent for 5 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 relevant subsidiary companies are mainly located in Shanghai, Suzhou, Guangzhou and Dongguan. The 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 adopted an aggressive strategy by vigorously expanding its scale, enriching its business model, updating its product design, improving its services as well as automation and informatization, and took the lead in using advanced information management systems in the industry, including ERP (Enterprise Resource Planning), BIM (Building Information Modeling) and MES (Manufacturing Execution System). With the progress and extensive application of R&D on automation, each company has further improved its technological workflow and significantly enhanced the product quality and production efficiency. As a result, the companies won high praise from brand customers and thereby consolidated their leading positions in the market. The continuous deepening of informatization has effectively improved the enterprise's ability in cost management and benefit analysis, providing a solid foundation for enterprise'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 make major breakthroughs during the period under review. While sales continued to rise, the profit of the main business increased by 7.3% over last year. The major companies showed great improvement in technology level and scale efficiency, achieving further improvement of development potential and competitiveness. During the year under review, the Group had acquired a piece of land in Hunan, China, and a larger industrial base is under construction, 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. Meanwhile, the Group will also further explore the limited diversification of business to expand the business model and enhance its product pipelines other than watch accessories. The Group firmly believes that, under the guidance of proactive strategies, the industrial group will achieve a further rapid development and become a powerful engine for the Group's sustainable development.

III. OUTLOOK

At present, the global political turmoil is growing more severely. World economic growth continues to slow down, while Hong Kong's economy is still suffering from unprecedented pressure, which make business operations difficult. Due to the impact of the epidemic, China's economy is also facing certain challenges. However, the sound and stable fundamentals of China's economic development remain unchanged, while the overall trend of steady and rising momentum on a long-term basis continues as well. The Group believes that with significantly large market scale and domestic demands potential, China's medium to high speed economic growth will continue with the upgrading of consumption. By continuously leveraging its core competitiveness, the Group will progress with innovations and constantly seek new business opportunities in order to keep itself healthy and move forward steadily.

In 2020, the Group will continue to adhere to the principle of "sound, steady and long-term operations." Based on the long-term stability and sustainable development of the overall business, we will explore and practice the new development model of the Group with an open mind and innovative thinking. By adjusting the structure, we will safeguard healthy development and seek sustainability. To exploit China's long-term and stable economic development environment, we will concentrate on expanding the production of watch accessories that can bring stable and sustainable income to the Group and conduct deeper cooperation with brand suppliers and international peers in various ways. At the same time, with the new industrial production bases, the limited diversification process of industrial production will be fully extended to seek a newer and broader development model for the Group, so as to realize a new breakthrough in the development of the Group, and create more value for shareholders and society.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Wednesday, 24 June 2020 to Tuesday, 30 June 2020 (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 attend and vote at the annual general meeting, all transfers together with 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 Tuesday, 23 June 2020.

PURCHASE, SALE OR REPURCHASE OF SECURITIES

During the year under review, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities (2018: 21,860,000 shares repurchased).

As of 31 December 2019, the issued share capital of the Company was 4,662,666,959 shares (2018: 4,662,666,959 shares).

AUDIT COMMITTEE AND THE SCOPE OF WORK OF ZHONGHUI ANDA CPA LIMITED

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. 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 significant or unusual 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 2018 and the 2019 interim report.

During the year, the audit committee of the Company held meetings on 20 March and 16 August 2019 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.

As the Company could not reach consensus with previous auditor, KPMG, for the incremental fees incurred or expected to be incurred arising from the extended audit procedures for the year ended 31 December 2019, KPMG resigned as auditor of the Company on 6 May 2020. The resignation letter of KPMG further stated that the they were unable to complete the audit as further information in respect of certain deposits and outstanding overdue receivables was pending to be provided by the management of the Company. In addition, the authorisation of the issuance of the relevant bank confirmation was pending due to the renewal of the reserved seal.

On 7 May 2020, the Board resolved to appoint ZHONGHUI ANDA CPA Limited as the auditor of the Company to fill the casual vacancy following the resignation of KPMG. During the course of their audit, the management of the Company provided the required outstanding information and documents in relation to the said deposits and receivables. Also, the relevant bank confirmation was issued after the completion of the renewal process of the reserved seal.

The final results of the Company for the year ended 31 December 2019 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 2019 have been agreed by the Group's auditor, ZHONGHUI ANDA CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year.

PROCEDURES PERFORMED BY ZHONGHUI ANDA CPA LIMITED IN RESPONSE TO THE OUTSTANDING MATTERS IDENTIFIED BY KPMG

With reference to the matters identified by KPMG set out in the Company's announcement dated 7 May 2020, ZHONGHUI ANDA CPA Limited ("ZHONGHUI") has performed the following audit procedures, included but not limited to the following in addressing the matters:

a. Discussed with management regarding the purpose of the guarantee deposits and obtained and reviewed relevant documents/agreements;

b. Checked the subsequent discharge of guarantee deposit and the deposit slips regarding the return of money;

c. Arranged confirmations for bank balances and obtained directly from the banks;

d. Conduct on-site-visit through staff who are based in the PRC;

e. Arranged confirmations for overdue trade receivables and checked the subsequent settlements up to the reporting date; and

f. Assessed the sufficiency of loss allowances for the long overdue trade receivables.

In light with the procedures performed, ZHONGHUI considered that the matters identified by KPMG were properly addressed in forming their audit opinion.

Based on the results of the above procedures performed by ZHONGHUI, the audit committee of the Company also considered that the matters identified by KPMG were properly addressed.

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 of the Group.

The remuneration committee held one meeting during the year to review matters related to the remuneration structure of the Directors and senior management of the Company. 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. ZHONGHUI ANDA CPA Limited 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 Listing Rules. 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 Director (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: 01/6/2019-31/5/2022.

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 capital of the Company; prepare plans in respect of the split-up, consolidation, alteration and dissolution of the Company; appoint and 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 discharged corporate governance duties in accordance with the terms of reference. To be specific, the Board mainly discharged 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 a 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 2019, 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	4	80%	By proxy	1	100%	
Cai Jianmin	5	100%		1	100%	
Shi Zhongyang	3	60%	By proxy	1	100%	
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 of the Company had complied with the standard as required by the above code.

By Order of the Board
Zhang Yuping
Chairman

Hong Kong, 5 June, 2020

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.