HENGDELI HOLDINGS LIMITED
亨得利控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3389)

2020 INTERIM RESULTS

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		
	2020	2019	YoY change
	RMB'000	*RMB'000*	
	(Unaudited)	(Unaudited)	(%)
Revenue	**651,831**	1,361,170	-52.1
Gross profit margin	**12.5%**	18.5%	-600 bps
(Loss)/profit for the period	**(71,317)**	33,414	-313.4
(Loss)/profit attributable to equity shareholders of the Company	**(70,961)**	29,925	-337.1

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 2020, 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 2020 – unaudited

(Expressed in Renminbi)

		Six months ended 30 June	
		2020	2019
	Note	***RMB'000***	*RMB'000*
Revenue	*2*	**651,831**	1,361,170
Cost of sales		**(570,054)**	(1,108,837)
Gross profit		**81,777**	252,333
Other revenue	*3(a)*	**23,884**	20,656
Other net loss	*3(b)*	**(13,657)**	(4,477)
Distribution costs		**(78,995)**	(139,596)
Administrative expenses		**(81,193)**	(78,369)
(Loss)/profit from operations		**(68,184)**	50,547
Finance costs	*4(a)*	**(4,944)**	(5,320)
(Loss)/profit before taxation	*4*	**(73,128)**	45,227
Income tax	*5*	**1,811**	(11,813)
(Loss)/profit for the period		**(71,317)**	33,414
Attributable to:			
Equity shareholders of the Company		**(70,961)**	29,925
Non-controlling interests		**(356)**	3,489
(Loss)/profit for the period		**(71,317)**	33,414
(Loss)/earnings per share	*6*		
Basic		**RMB(0.015)**	RMB0.006
Diluted		**RMB(0.015)**	RMB0.006

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30 June 2020 – unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2020	2019
	Note	***RMB'000***	*RMB'000*
(Loss)/profit for the period		**(71,317)**	33,414
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		**41,177**	2,123
		41,177	2,123
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)	*8*	**62,391**	4,858
Exchange differences on translation of equity investments at fair value through other comprehensive income	*8*	**4,847**	1,974
Exchange differences on translation of the Company's financial statements		**16,007**	3,655
		83,245	10,487
Total comprehensive income for the period		**53,105**	46,024
Attributable to:			
Equity shareholders of the Company		**52,719**	42,679
Non-controlling interests		**386**	3,345
Total comprehensive income for the period		**53,105**	46,024

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020 – unaudited

(Expressed in Renminbi)

	Note	At 30 June 2020 *RMB'000*	At 31 December 2019 *RMB'000*
Non-current assets			
Investment properties		**135,897**	137,738
Property, plant and equipment	*7*	**506,544**	538,087
		642,441	675,825
Intangible assets		**1,629**	1,724
Goodwill		**67,352**	66,502
Other investments	*8*	**517,330**	400,184
Prepayment and deposits	*10*	**14,840**	21,333
Deferred tax assets		**40,342**	34,003
		1,283,934	1,199,571
Current assets			
Inventories	*9*	**1,186,084**	1,309,758
Trade and other receivables	*10*	**601,245**	416,263
Current tax recoverable		**2,232**	2,192
Deposits with banks	*11*	**190,916**	548,115
Cash and cash equivalents	*12*	**1,186,946**	1,165,169
		3,167,423	3,441,497
Current liabilities			
Trade and other payables and contract liabilities	*13*	**151,072**	221,453
Bank loans	*14*	**63,830**	142,094
Lease liabilities		**82,302**	121,586
Current taxation		**13,914**	25,816
		311,118	510,949
Net current assets		**2,856,305**	2,930,548
Total assets less current liabilities		**4,140,239**	4,130,119

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
At 30 June 2020 – unaudited
(Expressed in Renminbi)

	Note	**At 30 June 2020** ***RMB'000***	At 31 December 2019 *RMB'000*
Non-current liabilities			
Bank loans	*14*	**77,077**	74,523
Lease liabilities		**29,920**	72,053
Deferred tax liabilities		**2,478**	1,956
		109,475	148,532
NET ASSETS		**4,030,764**	3,981,587
CAPITAL AND RESERVES	*15*		
Share capital		**22,337**	22,337
Reserves		**3,924,953**	3,872,278
Total equity attributable to equity shareholders of the Company		**3,947,290**	3,894,615
Non-controlling interests		**83,474**	86,972
TOTAL EQUITY		**4,030,764**	3,981,587

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2020 – unaudited

(Expressed in Renminbi)

	Note	Six months ended 30 June **2020** *RMB'000*	2019 *RMB'000*
Operating activities			
Cash generated from operations		**30,744**	131,427
Income tax paid		**(15,398)**	(5,423)
Net cash generated from operating activities		**15,346**	126,004
Investing activities			
Payment for the purchase of property, plant and equipment		**(29,399)**	(29,333)
Decrease in deposits with banks		**363,899**	259,555
Payment for advances to third parties		**(163,509)**	(144,539)
Payment for purchase of other investments		**(46,900)**	(99,765)
Other cash flows arising from investing activities		**24,239**	10,003
Net cash generated from/(used in) investing activities		**148,330**	(4,079)
Financing activities			
Capital element of lease rentals paid		**(72,051)**	(53,295)
Interest element of lease rentals paid		**(2,355)**	(2,581)
Other cash flows arising from financing activities		**(82,439)**	(53,410)
Net cash used in financing activities		**(156,845)**	(109,286)
Net increase in cash and cash equivalents		**6,831**	12,639
Cash and cash equivalents at 1 January	*12*	**1,165,169**	1,551,003
Effect of foreign exchange rates changes		**14,946**	5,629
Cash and cash equivalents at 30 June	*12*	**1,186,946**	1,569,271

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 18 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements.

The preparation of an interim financial report inconformity 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 2019 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 2019 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 2019 are available from the Company's registered office. The auditor had expressed an unqualified opinion on those financial statements in their report dated 5 June 2020.

2 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	
	2020	2019
	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	**399,959**	966,540
– Revenue from manufacturing of watch accessories	**122,796**	183,036
– Revenue from provision of shop design and decoration service	**85,706**	108,094
– Revenue from other businesses	**43,370**	103,500
	651,831	1,361,170
Revenue from other sources		
– Gross rentals from investment properties	**550**	1,530
	652,381	1,362,700
Disaggregated by geographical location of customers		
– Hong Kong Region (place of domicile)	**312,572**	864,834
– Mainland China	**252,112**	393,957
– Taiwan Region/Malaysia	**87,697**	103,909
	339,809	497,866
	652,381	1,362,700

Revenue from sales of watches, jewellery and related accessories is recognised to be the point in time.

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 Hong Kong Region and Mainland China for the six months ended 30 June 2020 of RMB550,000 (six months ended 30 June 2019: RMB1,530,000).

(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	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**312,262**	864,834	**87,697**	103,909	**251,872**	392,427	**651,831**	1,361,170
Inter-segment revenue	**–**	228	**–**	–	**31,774**	52,941	**31,774**	53,169
Reportable segment revenue	**312,262**	865,062	**87,697**	103,909	**283,646**	445,368	**683,605**	1,414,339
Reportable segment gross profit	**18,116**	156,392	**12,304**	25,009	**51,357**	70,932	**81,777**	252,333

	Retail				All others		Total	
	Hong Kong Region		Taiwan Region/Malaysia					
	30 June 2020	31 December 2019	**30 June 2020**	31 December 2019	**30 June 2020**	31 December 2019	**30 June 2020**	31 December 2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Reportable segment assets	**936,880**	1,020,649	**137,591**	167,353	**111,613**	121,779	**1,186,084**	1,309,781

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.

(c) Reconciliations of reportable segment profit or loss

	Six months ended 30 June 2020 *RMB'000*	2019 *RMB'000*
Revenue		
Total revenues for reportable segments	**399,959**	968,971
Revenue for other segments	**283,646**	445,368
Elimination of inter-segment revenue	**(31,774)**	(53,169)
Consolidated revenue	**651,831**	1,361,170
Profit		
Total gross profit for reportable segments	**30,420**	181,401
Gross profit for other segments	**51,357**	70,932
	81,777	252,333
Other revenue	**23,884**	20,656
Other net loss	**(13,657)**	(4,477)
Distribution costs	**(78,995)**	(139,596)
Administrative expenses	**(81,193)**	(78,369)
Finance costs	**(4,944)**	(5,320)
Consolidated (loss)/profit before taxation	**(73,128)**	45,227

3 OTHER REVENUE AND OTHER NET LOSS

(a) Other revenue

	Six months ended 30 June 2020 *RMB'000*	2019 *RMB'000*
Interest income	**14,429**	14,382
Rental income	**550**	1,530
Government grants	**2,178**	379
Dividend income from other investments	**5,689**	2,429
Others	**1,038**	1,936
	23,884	20,656

(b) Other net loss

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Net foreign exchange loss	**(3,310)**	(4,066)
Net loss on disposal of property, plant and equipment	**(2,551)**	(411)
Rent concession	**11,514**	–
Impairment of property, plant and equipment	**(11,789)**	–
Impairment of right-of-use assets	**(7,521)**	–
	(13,657)	(4,477)

4 (LOSS)/PROFIT BEFORE TAXATION

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

(a) Finance costs

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Interest on bank loans	**2,361**	1,955
Interest on lease liabilities	**2,355**	2,581
Bank charges	**228**	784
	4,944	5,320

(b) Other items

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Amortisation	**302**	210
Depreciation		
– Investment properties and property, plant and equipment	**19,680**	19,468
– Right-of-use assets	**26,784**	58,953
Provision for/(reversal of) impairment loss on trade and other receivables	**1,160**	(1,154)
Write-down/(reversal) of inventories	**22,904**	(3,021)
Expenses relating to short-term leases and leases of low-value assets	**10,646**	13,543
Variable lease payments not included in the measurement of lease liabilities	**427**	279

5 INCOME TAX

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Current tax		
Hong Kong Profits Tax	**(1,630)**	5,716
Mainland China Income Tax	**4,991**	6,953
Other overseas tax	**39**	35
	3,400	12,704
Deferred taxation	**(5,211)**	(891)
	(1,811)	11,813

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2019: 16.5%) to the six months ended 30 June 2020, 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 2019.

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.

6 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to equity shareholders of the Company of RMB70,961,000 (six months ended 30 June 2019: profit attributable to equity shareholders of the Company of RMB29,925,000) and the weighted average of 4,662,666,959 ordinary shares (six months ended 30 June 2019: 4,643,937,677 ordinary shares) in issue during the interim period.

(b) Diluted (loss)/earnings per share

There were no dilutive potential ordinary shares during the period ended 30 June 2020 and 2019, and therefore, diluted (loss)/earnings per share are the same as basic (loss)/earnings per share.

7 PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

During the six months ended 30 June 2020, 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 RMB1,581,000. 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 2020, the Group mainly acquired items of plant and machinery with a cost of RMB29,399,000 (six months ended 30 June 2019: RMB29,333,000).

8 OTHER INVESTMENTS

	At 30 June 2020 *RMB'000*	At 31 December 2019 *RMB'000*
Equity securities designated at FVOCI (non-recycling)		
– Listed securities	**515,845**	400,184
– Unlisted securities (note)	**1,485**	–
	517,330	400,184

Note: The directors are in the view that the cost of RMB1,485,000 represents the best estimate of fair value within that range.

9 INVENTORIES

	At 30 June 2020 *RMB'000*	At 31 December 2019 *RMB'000*
Raw materials	**19,302**	22,132
Work in progress	**39,979**	34,940
Finished goods	**1,126,803**	1,252,686
	1,186,084	1,309,758

10 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 2020 *RMB'000*	At 31 December 2019 *RMB'000*
Current assets		
Within 3 months	**115,240**	155,740
Over 3 months but less than 12 months	**22,676**	5,420
Over 12 months	**8,231**	59
Trade receivables, net of loss allowance	**146,147**	161,219
Other receivables	**392,917**	187,903
Prepayment and deposits	**62,181**	67,141
	601,245	416,263
Non-current assets		
Prepayment and deposits	**14,840**	21,333
	616,085	437,596

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.

11 DEPOSITS WITH BANKS

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Pledged deposits	**–**	14,700
Deposits with original maturities over three months	**190,916**	533,415
	190,916	548,115

12 CASH AND CASH EQUIVALENTS

As at 30 June 2020 and 31 December 2019, all of the Group's cash and cash equivalents in the consolidated statement of financial position represent cash at bank and cash in hand.

13 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 2020 RMB'000	At 31 December 2019 RMB'000
Within 1 month	**41,135**	108,979
Over 1 month but less than 3 months	**28,553**	18,422
Over 3 months but less than 12 months	**618**	4,108
Over 1 year	**231**	280
Trade payables	**70,537**	131,789
Contract liabilities	**22,667**	15,904
Other payables and accrued expenses	**57,868**	73,760
	151,072	221,453

14 BANK LOANS

	At 30 June 2020 *RMB'000*	At 31 December 2019 *RMB'000*
Bank loans within one year or on demand		
– Secured	**42,359**	54,836
– Unsecured	**21,471**	87,258
	63,830	142,094
Bank loans after one year		
– Secured	**77,077**	74,523
	77,077	74,523
	140,907	216,617

At 30 June 2020, the banking facilities of certain subsidiaries were secured by mortgages over their land and buildings with an aggregate carrying value of RMB137,016,000 (31 December 2019: RMB142,163,000) and bank deposit of RMB nil (31 December 2019: RMB14,700,000).

15 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

	Six months ended 30 June 2020 *RMB'000*	2019 *RMB'000*
Interim dividend declared after the interim period of RMB nil per ordinary share (2019: RMB0.038 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	
	2020	2019
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of RMB nil per ordinary share (six months ended 30 June 2019: RMB0.012 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 2020, no shares were granted under share award scheme.

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.

16 COMMITMENTS

Capital commitments outstanding at 30 June 2020 not provided for in the interim financial report

	At 30 June 2020	At 31 December 2019
	RMB'000	*RMB'000*
Contracted for	**24,676**	35,703

17 MATERIAL RELATED PARTY TRANSACTIONS

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Recurring transactions		
Shop design and decoration services provided to Xinyu Group	**16,363**	7,623

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2020, under the heavy blow of global coronavirus pandemic, the global economy experienced deep recession and the international financial market suffered from severe unrest. Coupled with many other unfavorable factors including trade frictions between China and the United States, the economies of Mainland China, Hong Kong and Macau have faced a huge and unprecedented pressure in recent years. In respond to this challenging business environment, the Group has adhered to the principle of "sound and steady operations", adapting to market conditions and actively adjusting its business, so as to ensure corporate existence and health with an aim of long-term development in the future.

I. Financial Review

Revenue

For the six months ended 30 June 2020, the Group recorded revenue of RMB651,831,000 (six months ended 30 June 2019: RMB1,361,170,000), representing a year-on-year decrease of 52.1%; retail sales amounted to RMB399,959,000 (six months ended 30 June 2019: RMB968,743,000), representing a year-on-year decrease of 58.7%; industrial group and others recorded revenue of RMB251,872,000 (six months ended 30 June 2019: RMB392,427,000), representing a year-on-year decrease of 35.8%.

Under the background of the spread of coronavirus and deep recession of the economy, watch retail in each region of the Group, especially in Hong Kong, has experienced difficulties. Many shops recorded significant losses, resulting in a notable decline in sales. The industrial group and others also faced significant adversity and challenge. With the impact of global pandemic, business operation was becoming more difficult, and the revenue decreased as compared to the same period last year.

Breakdown of revenue:
(for the six months ended 30 June 2020)

	2020		2019	
	RMB'000	*%*	*RMB'000*	*%*
Retail Business				
Hong Kong Region	**312,262**	**47.9**	864,834	63.6
Taiwan Region/Malaysia	**87,697**	**13.5**	103,909	7.6
Industrial Group and others	**251,872**	**38.6**	392,427	28.8
Total	**651,831**	**100**	1,361,170	100

Gross profit and gross profit margin

As of 30 June 2020, the Group's gross profit amounted to approximately RMB81,777,000 (six months ended 30 June 2019: RMB252,333,000), representing a year-on-year decrease of 67.6%. Gross profit margin was approximately 12.5% (six months ended 30 June 2019: 18.5%), representing a year-on-year decrease of 600bps. The decrease in gross profit and gross profit margin was mainly due to the decrease in the retail sales, greater discounts offered to our customers and the increase in the inventory provisions.

Loss for the period

During the period under review, the Group recorded a loss amounted to RMB71,317,000 (six months ended 30 June 2019: profit of RMB33,414,000). Loss attributable to equity shareholders amounted to RMB70,961,000 (six months ended 30 June 2019: profit of RMB29,925,000). The loss was mainly due to the decrease of revenue affected by the economic environment, the impairment of right-of-use assets related to Hong Kong retail business, the impairment of property, plant and equipment, and the inventory provisions.

Financial status and net debt to equity ratio

The Group maintained a sound and stable financial position. As at 30 June 2020, the Group had total equity of RMB4,030,764,000 (at 31 December 2019: RMB3,981,587,000) and net current assets of RMB2,856,305,000 (at 31 December 2019: RMB2,930,548,000), with cash and cash equivalents and deposits with banks of RMB1,377,862,000 (at 31 December 2019: RMB1,713,284,000) and total bank loans of RMB140,907,000 (at 31 December 2019: RMB216,617,000). As at 30 June 2020, bank loans bearing interests at fixed rates amounted to a total of RMB39,950,000 (at 31 December 2019: RMB102,733,000), with interest rates of 5.10% (at 31 December 2019: 3.59% to 5.10%), and the remaining bank loans bore interests at floating rates of 1.40% to 1.64% (at 31 December 2019: 1.70% to 3.06%). As at 30 June 2020, approximately 28% (at 31 December 2019: 18%), 0% (at 31 December 2019: 29%), 0% (at 31 December 2019: 6%) and 72% (at 31 December 2019: 47%) of bank loans were denominated in RMB, HKD, USD 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 2020, the Group's total debt amounted to RMB140,907,000 (at 31 December 2019: RMB216,617,000). The net debt to equity ratio of the Group was zero (at 31 December 2019: 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 its funding liquidity and financing needs 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 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 2020, the Group had land and buildings equivalent to RMB137,016,000 (at 31 December 2019: RMB142,163,000) pledged as security for mortgage.

Contingent liabilities

As at 30 June 2020, the Group had no material contingent liabilities (at 31 December 2019: nil).

Current assets

As at 30 June 2020, the current assets of the Group amounted to approximately RMB3,167,423,000 (at 31 December 2019: RMB3,441,497,000), comprising inventories of approximately RMB1,186,084,000 (at 31 December 2019: RMB1,309,758,000), trade and other receivables of approximately RMB601,245,000 (at 31 December 2019: RMB416,263,000), cash and cash equivalents and deposits with banks of approximately RMB1,377,862,000 (at 31 December 2019: RMB1,713,284,000).

As at 30 June 2020, cash and cash equivalents of approximately 12% (at 31 December 2019: 11%), 83% (at 31 December 2019: 77%) and 5% (at 31 December 2019: 12%) were denominated in RMB, HKD and other currencies, respectively.

Current liabilities

As at 30 June 2020, the current liabilities of the Group amounted to approximately RMB311,118,000 (at 31 December 2019: RMB510,949,000), comprising bank loans of approximately RMB63,830,000 (at 31 December 2019: RMB142,094,000), trade and other payables of approximately RMB151,072,000 (at 31 December 2019: RMB221,453,000), lease liabilities of approximately RMB82,302,000 (at 31 December 2019: RMB121,586,000) and current tax payable of approximately RMB13,914,000 (at 31 December 2019: RMB25,816,000).

Capital structure

The Company's capital structure is composed of issued share capital, reserves and accumulated profits. As at 30 June 2020, the issued share capital of the Company was 4,662,666,959 shares (at 31 December 2019: 4,662,666,959 shares) with reserves and accumulated profits of RMB3,924,953,000 (at 31 December 2019: RMB3,872,278,000) in total.

Significant investment, material acquisition and disposal

The Company had 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 watch accessories manufacturing, the sales of internationally renowned branded watches in areas including Hong Kong, Macau, Taiwan and Malaysia, comprehensive related customer services and maintenance and e-commerce, etc.

Retail Network

The Group's retail network is mainly located in Hong Kong, Macau, Taiwan regions 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 67 retail outlets in above-mentioned regions as of 30 June 2020, details of which are set out below:

	As of 30 June 2020		
	Hong Kong and Macau Regions	**Taiwan Region/ Malaysia**	**Total**
Elegant	**5**	**1**	**6**
Hengdeli/Watchshoppe	**1**	**33**	**34**
Brand boutiques	**10**	**17**	**27**
Total	**16**	**51**	**67**

The Group has maintained sound business relationships with many world-renowned-brand watch suppliers over the years, including SWATCH Group, LVMH Group, RICHEMONT Group and KERING Group, etc. As of 30 June 2020, the Group was engaged in the distribution of over 50 international renowned 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.

In the first half of 2020, under the background of the spread of coronavirus and deep recession of the economy, watch retail in each region of the Group, especially in Hong Kong, has experienced difficulties. Many shops recorded significant losses, resulting in notable declines in sales and gross profit margin. Overall, the retail sales recorded a year-on-year decrease of 58.7%, and the gross profit margin decreased by 600bps. The Group quickly adopted multiple measures including shop closure in order to survive by reducing the loss. Currently, the 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 coronavirus pandemic, retail business of the Group is still facing huge difficulty. In the second half of the year, the Group will continue to adjust its business in every practical way (including staff layoff and continuous shop closure) at its discretion for the future development of the Group.

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, 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 HYT, Christophe Claret, Greubel Foresy, MB&F, Armin Strom and Moritz Grossmann, in order to expand its market share.

During the period under review, under the background of the spread of coronavirus and deep recession of the global economy, the economic situation in Hong Kong was extremely grim. The coronavirus pandemic has imposed material impact on extensive economic activities in Hong Kong. Coupled with the continuous China-US trade disputes and the geopolitical unrest, the economy recession further deteriorated. Watch retail of the Group has experienced huge difficulties. Many shops recorded significant losses, resulting in notable declines in sales and gross profit margin. The Group quickly adopted multiple measures including actively striving for rental reduction, staff layoff and shop closure in order to survive by reducing the loss. During the period under review, the Group has closed five retail outlets in commercial areas including Central, Causeway Bay and Tsim Sha Tsui, respectively.

During the period under review, the operation of the "Hengdeli" store in Macau was basically similar to that in Hong Kong with significant losses.

As of 30 June 2020, the Group operated a total of 16 retail outlets in Hong Kong and Macau yet. The overall situation has been extremely tough. The global political turmoil remained severe recently, the 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 coronavirus pandemic, Hong Kong economy is still facing the unprecedented challenges, which makes business operations difficult. In the second half of the year, the Group will adapt to market conditions and continue to adjust its business structure in every practical way (including staff layoff and continuous shop closure) at its discretion with an aim of healthy survival.

Taiwan and Malaysia

The Group's retail business in Taiwan mainly focuses on the sales of mid-end and mid-to-high-end watch brands. The Group operated a total of 45 retail outlets in Taiwan as at 30 June 2020, mainly located in prime districts including Taipei, Taichung, Kaohsiung, Hsinchu and Chiayi. Except for one "Elegant" shop which sells top-end watches, all other shops 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.

The Group operated 6 stores in Malaysia, selling mid-end and mid-to-high-end branded watches, mainly including Certina, Hamilton, Longines, Rado, TAG Heuer, Tissot, Montblanc, Mido, Maurice Lacroix, Oris, and Bell & Ross.

During the period under review, due to the severe impacts of significant decline of global economy and coronavirus pandemic, many shops in Taiwan and Malaysia were closed and suspended for a longer duration, sales in the two regions have declined severely or been put to a halt. Based on current situation, it its expected that no breakthrough will be made for the sales in these two regions in the second half of the year.

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 continued 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 also maintained good cooperation relationship with brand suppliers. As of 30 June 2020, the Group has become the maintenance agent for almost 100 international brands, of which 5 brands were exclusive.

Industrial Group

The Group has a relatively mature industrial chain for watch accessories manufacturing, mainly covering from the manufacturing of watch accessories and packaging products to commercial space design, production and decoration. Companies are mainly located in 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, industrial group also faced significant adversity and challenge, for which three of its subsidiaries are all located in Mainland China. In the first half of the year, with the impact of pandemic, business operation was becoming more difficult, and plenty of peer corporates in Mainland China were unable to continue their operation. The Group is stability-rooted and pursues development through innovation. While ensuring the safety and health of our employees, the Group has organized the work and production resumption in a timely manner, adopted various proactive and effective measures to deal with the pandemic, and achieved significant results. During the period under review, the revenue of industrial group decreased by 28.4%, which was less than the peers in the industry, as compared with the same period of last year. However, with the joint efforts of all staff members, the Group still recorded a profit over ten million, which was not easy for us. Stable operation of industrial group established a good foundation for the start of the Group's business in the second half of the year and its future development.

The pandemic has been well-controlled in Mainland China recently, and each major economic indicators have showed positive signals, which indicate the overall economy standstill after the strike of pandemic. The Group believes that with significantly extensive market advantages and potential for domestic demand, the favorable long-term fundamentals of China's economy remain unchanged and the developing trend of the economy at a medium to high speed will continue. In the second half of the year, 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. By leveraging Mainland China's long-term and stable economic development environment, we will concentrate on expanding the production of accessories for mid-to-high-end products such as watch and jewellery that can bring stable and sustainable income to the Group, and conduct deeper cooperation with brands and international peers in various ways. At the same time, with the new industrial production bases, the limited diversification process of industrial production and service will be extended to accessory fields of cosmetics and electronics. The Group will continue to expand business model, enrich product pipelines and seek a newer and broader development model for the Group, so as to realize a new breakthrough in our development. The Group firmly believes that the industrial group, through its rapid improvement, will provide internal impetus to the Group's sustainability and 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 2020, the Group had a total of 1,658 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. Awarded shares are granted 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 have passed annual inspection and met national standards.

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. 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 turmoil is still severe while the coronavirus pandemic has not been eased yet. There are still many difficulties and issues in China's economy operation. However, the pandemic has been well-controlled in Mainland China recently, and various major economic indicators have showed positive signals, which indicate the overall economy standstill after the strike of pandemic. The Group believes that with significantly extensive market advantages and potential for domestic demand, the favorable long-term fundamentals of China's economy remain unchanged and the developing trend of the economy at a medium to high speed will continue. By continuously leveraging its core competitiveness, the Group will get rid of the old to make way for the new and constantly seek new business opportunities, so as to keep the enterprise healthy and move forward steadily.

Based on the sprite of the resolutions of the Board, the Group will continue to adhere to the principle of "sound and steady operations", adapt to market conditions, and adjust its business structure in every practical way (including staff layoff and continuous shop closure) at its discretion. The Group will start from the strategies for future development by leveraging Mainland China's long-term and stable economic development environment, concentrate on expanding the production of accessories for mid-to-high-end products such as watch and jewellery that can bring stable and sustainable income to the Group, and conduct deeper cooperation with brands and international peers in various ways. At the same time, with the new industrial production bases, the limited diversification process of industrial production and service will be extended to accessory fields of cosmetics and electronics. The Group will seek a newer and broader development model so as to achieve a new breakthrough in our development.

DIVIDEND DISTRIBUTION

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2020. (for the six months ended 30 June 2019: RMB3.8 cents per share).

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 tenth 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, no awarded shares were granted by the Company (for the six months ended 30 June 2019: 30,000,000 shares).

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 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 (the "Share Option Scheme"). 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 2020, the issued share capital of the Company was 4,662,666,959 shares, and there was no option outstanding (30 June 2019: 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 2019: nil).

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 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 complied with the Corporate Governance 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, 18 August 2020

As at the date of 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.