Arts Group

Arts Optical International Holdings Limited

(Incorporated in Bermuda with limited liability) Stock Code:1120

2019

INTERIM REPORT

Contents

Corporate Information

Board of directors

Executive directors

NG Hoi Ying, Michael
NG Kim Ying

Independent non-executive directors

WONG Chi Wai
CHUNG Hil Lan Eric
LAM Yu Lung

Company secretary

CHOI Pui Yiu

Auditor

Deloitte Touche Tohmatsu

Legal advisers

Stephenson Harwood
Conyers Dill & Pearman

Registered office

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2 Church Street
Hamilton HM 11
Bermuda

Website

www.artsgroup.com

Head office and principal place of business in Hong Kong

Unit 308, 3rd Floor, Sunbeam Centre
27 Shing Yip Street, Kwun Tong
Kowloon, Hong Kong

Principal share registrar

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Hong Kong branch share registrar

Tricor Secretaries Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal bankers

Bank of China (Hong Kong) Limited
Chong Hing Bank Limited
Dah Sing Bank, Limited
Hang Seng Bank Limited
The Bank of East Asia, Limited

Management Discussion and Analysis

BUSINESS REVIEW

Profitability analysis

The Group's consolidated revenue decreased by 2% to HK$545.5 million during the six months ended 30th June, 2019 (2018: HK$557.4 million). A loss of HK$54.5 million was incurred during the period under review (2018: HK$24.4 million). Loss per share was 14.11 HK cents (2018: 6.37 HK cents).

Significant increase in loss for the period under review was mainly due to decrease in fair valuation gain by HK$19.1 million on revaluation of investment properties from HK$20.0 million for the period ended 30th June, 2018 to HK$0.9 million for the period under review. Moreover, customers' sales orders and production volumes had decreased significantly in quarter two of 2019 after the President of the United States (the "US") threatened to increase tariff on US$200 billion of Chinese goods from 10% to 25% in early May of 2019. The decrease in production volume resulted in reduction of gross margin in quarter two of 2019 because of negative impact on economies of scale.

Original design manufacturing ("ODM") division

Revenue generated by the ODM division contributed 76% to the consolidated revenue of the Group in the period under review (2018: 77%). Sales to ODM customers decreased by 3% from HK$430.8 million in the first six months of 2018 to HK$417.0 million in the first six months of 2019. Geographically, sales to Europe, the US, Asia and other regions accounted for 59%, 28%, 11% and 2% respectively (2018: 51%, 38%, 10% and 1% respectively) of the revenue of the ODM division during the period under review. Sales to the US decreased significantly by 29% from HK$165.6 million in the first six months of 2018 to HK$116.9 million in the first six months of 2019 due to the increasing trade friction between China and the US during the period under review. The Group continued to maintain a fairly balanced sales mix between prescription frames and sunglasses. Sales of prescription frames, sunglasses and spare parts accounted for 55%, 42% and 3% respectively of the revenue of this division during the first half of 2019 (2018: 50%, 48% and 2% respectively).

Distribution division

The Group's house brand and licensed brand products were sold to retailers through the Group's wholesale arms in the United Kingdom, France, China and South Africa, and independent distributors in other countries. Revenue of the distribution division increased slightly by 2% to HK$128.5 million (2018: HK$126.6 million) and accounted for 24% (2018: 23%) of the consolidated revenue during the first six months of 2019. Sales to Europe, Asia, the US and other regions accounted for 63%, 17%, 7% and 13% respectively of the revenue of the distribution division in the period under review (2018: 59%, 19%, 8% and 14% respectively). There was no significant change in sales by regions.

Management Discussion and Analysis

Financial position and liquidity

Cash flows

The Group recorded a net cash inflow from operating activities of HK$99.0 million during the period under review (2018: net cash outflow of HK$11.0 million). The result in net cash inflow was mainly due to decrease in inventory and debtors, deposit and prepayments by HK$42.5 million and HK$97.2 million respectively in the period under review. The net cash position of the Group (being the bank balances and cash less bank borrowings) increased from HK$191.6 million as at 31st December, 2018 to HK$278.7 million as at 30th June, 2019.

Working capital management

In line with the decline in revenue during the period under review, inventory balances and total amount of trade debtors and bills receivable balances decreased by 23% and 28% respectively from HK$182.6 million and HK$339.6 million as at 31st December, 2018 to HK$140.0 million and HK$245.1 million as at 30th June, 2019. Inventory turnover period (being the ratio of inventory balances to cost of sales) and debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) also decreased from 64 days and 95 days in the first half of 2018 to 58 days and 82 days respectively in the period under review due to gradual slowdown of business activities of the Group in the second quarter of 2019. The current ratio (being the ratio of total current assets to total current liabilities) of the Group remained stable at 1.7 to 1.0 as at both 30th June, 2019 and 31st December, 2018. We expect the current ratio will remain stable in the second half of the year.

Gearing position

Despite the loss incurred by the Group in the first six months of 2019, the Group's gearing position remained low throughout the period under review. The debt-to-equity ratio (expressed as a percentage of non-current liabilities over equity attributable to owners of the Company) remained stable at around 1% as at both 30th June, 2019 and 31st December, 2018. The non-current liabilities of the Group mainly comprised deferred taxation which amounted to HK$11.0 million as at 30th June, 2019 (31st December, 2018: HK$12.0 million).

Net asset value

The Company had 386,263,374 shares in issue as at both 30th June, 2019 and 31st December, 2018 with equity attributable to owners of the Company amounting to HK$989.2 million and HK$1,045.4 million as at 30th June, 2019 and 31st December, 2018 respectively. Net asset value per share (being the equity attributable to owners of the Company divided by the total number of shares in issue) as at 30th June, 2019 was HK$2.56 (31st December, 2018: HK$2.71).

Foreign currency exposure

The Group was exposed to the fluctuation of Renminbi against both the US dollar and the Hong Kong dollar. Save as above, the Group had limited exposure to foreign exchange rate fluctuations as most of its transactions were conducted in either US dollars, Hong Kong dollars or Renminbi. The Group notes that there is potential exposure to the rapid change of Renminbi yet the range of movement is relatively limited. The Group manages foreign exchange risk by closely monitoring the movements of the foreign currency rates and entering into forward contracts whenever appropriate.

PROSPECTS

Market outlook

Looking forward, outlook for the second half of 2019 will be uncertain and the Group expects market demand will be weakened because the US government just announced on 23rd August, 2019 the imposition of a 15% tariff on the remaining US$300 billion Chinese goods starting on 1st September, 2019. The Group believes that the chance of optical products being removed from the final list is unlikely. Meanwhile, the Group also reckons that trade friction between the two countries will not be settled thoroughly in a short period of time whether or not the 15% tariff will be implemented on schedule.

The higher profit margin of the distribution division demonstrates its growing importance in the future development of the Group. The Group will continue to seek business opportunities to increase the contribution of this division either through establishment of our own network or forming joint ventures with strategic distribution partner(s).

Margin pressure

Although the recent depreciation of the Renminbi will definitely help to leverage the continuing growth of labour costs and other operating expenses in Mainland China, the Group will continue to focus on operating costs control and improvement of production efficiency.

IMPORTANT EVENTS AFTER THE END OF THE FINANCIAL PERIOD

There are no important events affecting the Group which have occurred after the end of financial period for the six months ended 30th June, 2019 and up to the date of this report.

EMPLOYEE AND REMUNERATION POLICIES

As at 30th June, 2019, the Group employed approximately 5,000 (31st December, 2018: 5,300) full time staff in Mainland China, Hong Kong, Europe and South Africa. The Group remunerates its employees based on their performance, experience, qualifications and prevailing market salaries while performance bonuses are granted on a discretionary basis after considering individual performance and the operating results of the Group. Other employee benefits include insurance and medical coverage, subsidised educational and training programmes as well as provident fund schemes.

Ng Hoi Ying, Michael
Chairman

Hong Kong, 29th August, 2019

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF
ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED
雅視光學集團有限公司
(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Arts Optical International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 7 to 34, which comprise the condensed consolidated statement of financial position as of 30th June, 2019 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

29th August, 2019

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30th June, 2019

	Notes	Six months ended 30.6.2019 HK$'000 (unaudited)	30.6.2018 HK$'000 (unaudited)
Revenue	3	**545,505**	557,398
Cost of sales		**(442,916)**	(439,980)
Gross profit		**102,589**	117,418
Other income		**7,506**	11,382
Other gains and losses		**(252)**	19,647
Impairment losses		**(3,405)**	(294)
Distribution and selling expenses		**(15,763)**	(17,121)
Administrative expenses		**(144,946)**	(157,563)
Other expenses		**(1,309)**	(1,124)
Finance costs	4	**(456)**	(665)
Share of profit of an associate		**7,635**	5,299
Share of profit of a joint venture		**–**	155
Loss before tax		**(48,401)**	(22,866)
Income tax (expense) credit	5	**(3,474)**	320
Loss for the period	6	**(51,875)**	(22,546)
Other comprehensive (expense) income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(1,778)**	(18,155)
Item that will not be reclassified to profit or loss:			
Revaluation increase upon transfer from property, plant and equipment to investment properties		**–**	1,915
		(1,778)	(16,240)
Total comprehensive expense for the period		**(53,653)**	(38,786)
(Loss) profit for the period attributable to:			
Owners of the Company		**(54,521)**	(24,426)
Non-controlling interests		**2,646**	1,880
		(51,875)	(22,546)
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		**(56,213)**	(40,396)
Non-controlling interests		**2,560**	1,610
		(53,653)	(38,786)
Loss per share	8		
— Basic		**(14.11) HK cents**	(6.37) HK cents

Condensed Consolidated Statement of Financial Position

At 30th June, 2019

	Notes	**30.6.2019** ***HK$'000*** **(unaudited)**	31.12.2018 *HK$'000* (audited)
Non-current Assets			
Investment properties	9	**178,470**	177,610
Property, plant and equipment	10	**470,911**	522,698
Right-of-use assets		**32,045**	–
Prepaid lease payments		**–**	29,386
Deposits paid for acquisition of property, plant and equipment		**2,202**	1,315
Intangible assets		**8,683**	9,396
Goodwill		**7,713**	7,760
Interest in an associate	11	**44,515**	32,306
Interest in a joint venture		**–**	–
Loan receivable		**–**	–
Deferred tax assets		**431**	391
		744,970	780,862
Current Assets			
Inventories		**140,030**	182,563
Debtors, deposits and prepayments	12	**258,198**	355,359
Loan receivable		**–**	–
Other receivables		**873**	881
Prepaid lease payments		**–**	802
Bank balances and cash		**306,733**	222,277
		705,834	761,882
Current Liabilities			
Creditors and accrued charges	13	**365,914**	399,115
Contract liabilities		**8,375**	13,363
Refund liabilities		**3,287**	4,865
Bank borrowings	14	**27,989**	30,641
Lease liabilities		**985**	–
Tax liabilities		**10,608**	9,456
		417,158	457,440
Net Current Assets		**288,676**	304,442
Total Assets less Current Liabilities		**1,033,646**	1,085,304

Condensed Consolidated Statement of Financial Position

At 30th June, 2019

	Note	30.6.2019 HK$'000 (unaudited)	31.12.2018 HK$'000 (audited)
Capital and Reserves			
Share capital		**38,626**	38,626
Reserves		**950,576**	1,006,789
Equity attributable to owners of the Company		**989,202**	1,045,415
Non-controlling interests		**30,427**	27,867
Total Equity		**1,019,629**	1,073,282
Non-current Liabilities			
Other payable	11	**1,388**	–
Lease liabilities		**1,631**	–
Deferred tax liabilities		**10,998**	12,022
		14,017	12,022
		1,033,646	1,085,304

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2019

	Attributable to owners of the Company									
	Share capital *HK$'000*	**Share premium** *HK$'000*	**Special reserve** *HK$'000* *(Note a)*	**Other reserve** *HK$'000* *(Note b)*	**Exchange reserve** *HK$'000*	**Property revaluation reserve** *HK$'000*	**Retained profits** *HK$'000*	**Total** *HK$'000*	**Non-controlling interests** *HK$'000*	**Total** *HK$'000*
At 1st January, 2018 (audited)	38,365	113,950	(3,269)	5,318	97,682	37,261	855,280	1,144,587	22,232	1,166,819
(Loss) profit for the period	–	–	–	–	–	–	(24,426)	(24,426)	1,880	(22,546)
Exchange differences arising on translation of foreign operations	–	–	–	–	(17,885)	–	–	(17,885)	(270)	(18,155)
Revaluation increase upon transfer from property, plant and equipment to investment properties	–	–	–	–	–	1,915	–	1,915	–	1,915
Total comprehensive (expense) income for the period	–	–	–	–	(17,885)	1,915	(24,426)	(40,396)	1,610	(38,786)
Contribution from non-controlling shareholder in respect of incorporation of a subsidiary	–	–	–	–	–	–	–	–	3,244	3,244
At 30th June, 2018 (unaudited)	38,365	113,950	(3,269)	5,318	79,797	39,176	830,854	1,104,191	27,086	1,131,277
At 1st January, 2019 (audited)	38,626	118,706	(3,269)	5,318	49,054	39,177	797,803	1,045,415	27,867	1,073,282
(Loss) profit for the period	–	–	–	–	–	–	(54,521)	(54,521)	2,646	(51,875)
Exchange differences arising on translation of foreign operations	–	–	–	–	(774)	–	–	(774)	(86)	(860)
Exchange differences arising on translation of an associate	–	–	–	–	(918)	–	–	(918)	–	(918)
Total comprehensive (expense) income for the period	–	–	–	–	(1,692)	–	(54,521)	(56,213)	2,560	(53,653)
At 30th June, 2019 (unaudited)	38,626	118,706	(3,269)	5,318	47,362	39,177	743,282	989,202	30,427	1,019,629

Notes:

(a) Special reserve represents the difference between the nominal amount of the share capital issued by the Company and the aggregate of the nominal amount of the issued share capital and the surplus account of Allied Power Inc. pursuant to the group reorganisation in 1996.

(b) Other reserve arose from the acquisition of additional interests in subsidiaries from non-controlling interests and the disposal of partial interests in subsidiaries to non-controlling interests and third parties without losing control.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30th June, 2019

	Note	Six months ended **30.6.2019** ***HK$'000*** **(unaudited)**	30.6.2018 *HK$'000* (unaudited)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**98,977**	(11,019)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(4,155)**	(7,905)
Deposits paid for acquisition of property, plant and equipment		**(1,471)**	(1,413)
Contribution from non-controlling shareholder in respect of incorporation of a subsidiary		**–**	3,244
Investment in an associate	11	**(5,553)**	–
Release of structured deposits		**–**	114,911
Proceeds from disposal of property, plant and equipment		**293**	712
Dividend received from an associate		**–**	4,525
Interest received		**554**	3,134
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(10,332)**	117,208
FINANCING ACTIVITIES			
Interest paid on bank borrowings		**(433)**	(665)
Interest paid on lease liabilities		**(23)**	–
Repayments of bank borrowings		**(2,652)**	(23,430)
Repayments of lease liabilities		**(409)**	–
CASH USED IN FINANCING ACTIVITIES		**(3,517)**	(24,095)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**85,128**	82,094
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**222,277**	233,446
Effect of foreign exchange rate changes		**(672)**	(1,721)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, represented by		**306,733**	313,819
Short-term bank deposits		**–**	126,149
Bank balances and cash		**306,733**	187,670
		306,733	313,819

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties, which are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th June, 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1st January, 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC) — Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 *Leases*

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 *Leases* ("HKAS 17"), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of office premises that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 *Leases* (continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Right-of-use assets (continued)

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the condensed consolidated statement of financial position. The right-of-use assets that meet the definition of investment property are presented within "investment properties".

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements, except for those that are classified and accounted for as investment properties.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 *Leases* (continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

2. *PRINCIPAL ACCOUNTING POLICIES* (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 *Leases* (continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Lease liabilities (continued)

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

2. *PRINCIPAL ACCOUNTING POLICIES* (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 *Leases* (continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

As a lessor

Allocation of consideration to components of a contract

The Group applies HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Subsequently, adjustments to fair value are considered as additional lease payments from lessees.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

2. *PRINCIPAL ACCOUNTING POLICIES* (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 *Leases* (continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1st January, 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1st January, 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

iii. used hindsight based on facts and circumstances as date of initial application in determining the lease term for the Group's leases with extension and termination options.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 *Leases* (continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee (continued)

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1st January, 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid rent by applying HKFRS 16.C8(b)(ii) transition.

The Group recognised lease liabilities of HK$3,025,000 and right-of-use assets of HK$33,346,000 at 1st January, 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 2.46%.

	At 1st January, 2019 *HK$'000*
Operating lease commitments disclosed as at 31st December, 2018	4,597
Lease liabilities discounted at relevant incremental borrowing rates	4,374
Less: Recognition exemption – short-term leases	(1,349)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 (i.e. as at 1st January, 2019)	3,025
Analysed as	
Current	958
Non-current	2,067
	3,025

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 *Leases* (continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee (continued)

The carrying amount of right-of-use assets as at 1st January, 2019 comprises the following:

	Notes	**Right-of-use assets** *HK$'000*
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		3,025
Reclassified from prepayment of rent	(a)	133
Reclassified from prepaid lease payments	(b)	30,188
		33,346
By class:		
Land and buildings		33,346

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1st January, 2019. Line items that were not affected by the changes have not been included.

2. *PRINCIPAL ACCOUNTING POLICIES* (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 *Leases* (continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee (continued)

	Notes	**Carrying amounts previously reported at 31st December, 2018** *HK$'000*	**Adjustments** *HK$'000*	**Carrying amounts under HKFRS 16 at 1st January, 2019** *HK$'000*
Non-current Assets				
Prepaid lease payments	(b)	29,386	(29,386)	–
Right-of-use assets		–	33,346	33,346
Current Assets				
Prepaid lease payments	(b)	802	(802)	–
Debtors, deposits and prepayments	(a)	355,359	(133)	355,226
Current Liability				
Lease liabilities		–	(958)	(958)
Non-current Liability				
Lease liabilities		–	(2,067)	(2,067)

Notes:

(a) Prepaid rent for office premises was classified as prepayment as at 31st December, 2018. Upon application of HKFRS 16, the prepaid rent was reclassified as right-of-use assets.

(b) Upfront payments for leasehold land in the People's Republic of China (the "PRC") were classified as prepaid lease payments as at 31st December, 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK$802,000 and HK$29,386,000 respectively were reclassified to right-of-use assets.

For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30th June, 2019, movements in working capital have been computed based on opening condensed consolidated statement of financial position as at 1st January, 2019 as disclosed above.

2. *PRINCIPAL ACCOUNTING POLICIES* (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 *Leases* (continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1st January, 2019. The application has had no impact on the Group's condensed consolidated statement of financial position at 1st January, 2019. However, effective 1st January, 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect subsequent to the date of initial application.

Effective on 1st January, 2019, the Group has applied HKFRS 15 to allocate consideration in the contract to each lease and non-lease components.

3. REVENUE AND SEGMENT INFORMATION

Information reported to the executive directors, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on geographical markets, based on the location of customers. Thus, the Group is currently organised into four segments which are sales of optical products to customers located in Europe, the United States, Asia and other regions.

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating and reportable segment for the period under review:

For the six months ended 30th June, 2019

	Europe HK$'000	United States HK$'000	Asia HK$'000	Other regions HK$'000	Consolidated HK$'000
Revenue from contracts with customers (Note)					
Original design manufacturing division	245,092	116,906	47,733	7,314	417,045
Distribution division	80,415	9,091	22,256	16,698	128,460
External sales	325,507	125,997	69,989	24,012	545,505
Result					
Segment profit (loss)	2,017	(6,927)	(4,740)	662	(8,988)
Unallocated income and gains					6,431
Unallocated corporate expenses and losses					(53,577)
Interest income on bank deposits					554
Finance costs					(456)
Share of profit of an associate					7,635
Loss before tax					(48,401)

3. REVENUE AND SEGMENT INFORMATION (continued)

Segment revenues and results (continued)

For the six months ended 30th June, 2018

	Europe HK$'000	United States HK$'000	Asia HK$'000	Other regions HK$'000	Consolidated HK$'000
Revenue from contracts with customers (Note)					
Original design manufacturing division	220,962	165,605	42,253	1,965	430,785
Distribution division	74,749	10,698	23,820	17,346	126,613
External sales	295,711	176,303	66,073	19,311	557,398
Result					
Segment profit (loss)	5,663	(7,423)	(2,408)	2,035	(2,133)
Unallocated income and gains					22,748
Unallocated corporate expenses and losses					(51,404)
Interest income on bank deposits					3,134
Finance costs					(665)
Share of profit of an associate					5,299
Share of profit of a joint venture					155
Loss before tax					(22,866)

Note: Revenue is recognised at "a point in time" when the customer obtains control of the goods.

Segment profit or loss represents the profit earned by or loss from each segment without allocation of central administration costs, directors' emoluments, property rental income, net foreign exchange gains or losses, increase in fair value of investment properties, finance costs, interest income, share of profit of an associate and share of profit of a joint venture. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

Total segment assets and liabilities are not disclosed as they are not regularly reviewed by the chief operating decision maker.

4. FINANCE COSTS

	Six months ended	
	30.6.2019	30.6.2018
	HK$'000	*HK$'000*
Interests on bank borrowings	**433**	665
Interests on lease liabilities	**23**	—
	456	665

5. INCOME TAX EXPENSE (CREDIT)

	Six months ended	
	30.6.2019	30.6.2018
	HK$'000	*HK$'000*
The charge comprises:		
Current period:		
Hong Kong Profits Tax	**1,055**	885
PRC Enterprise Income Tax	**48**	36
United Kingdom Corporation Tax	**1,194**	1,053
France Corporation Tax	**912**	984
South Africa Corporation Tax	**147**	146
Withholding tax for dividend of an associate	**1,140**	—
	4,496	3,104
(Over)underprovision in respect of prior periods:		
PRC Enterprise Income Tax	**(14)**	(3)
South Africa Corporation Tax	**60**	—
	46	(3)
Deferred taxation	**(1,068)**	(3,421)
	3,474	(320)

5. INCOME TAX EXPENSE (CREDIT) (continued)

On 21st March, 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28th March, 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, the Hong Kong Profits Tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both periods.

United Kingdom Corporation Tax is calculated at the applicable rate of 19% in accordance with the relevant law and regulations in the United Kingdom for both periods.

France Corporation Tax is calculated at the applicable rate of 28% for amounts of taxable profit up to Euro ("€") 500,000 and a corporate tax rate of 33.33% for taxable profit above €500,000 in accordance with the relevant law and regulations in France for both periods.

South Africa Corporation Tax is calculated at the applicable rate of 28% in accordance with the relevant law and regulations in South Africa for both periods.

In relation to 50:50 apportionment basis, a portion of the Group's profits is deemed under Hong Kong Profits Tax neither arises in, nor is derived from, Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong Profits Tax. Further, in the opinion of the directors of the Company (the "Directors"), that portion of the Group's profit is not subject to taxation in any other jurisdiction in which the Group operates for both periods.

6. LOSS FOR THE PERIOD

	Six months ended	
	30.6.2019	30.6.2018
	HK$'000	*HK$'000*
Loss for the period has been arrived at after charging (crediting):		
Amortisation of intangible assets	**966**	1,029
Net impairment losses recognised on debtors	**3,405**	294
Cost of inventories recognised as an expense	**442,916**	439,980
Depreciation of property, plant and equipment	**49,852**	50,534
Depreciation of right-of-use assets	**957**	–
Net loss (gain) on disposal of property, plant and equipment (included in other gains and losses)	**1,548**	(631)
Increase in fair values of investment properties (included in other gains and losses)	**(860)**	(20,000)
Net foreign exchange (gains) losses (included in other gains and losses)	**(3,436)**	679
Release of prepaid lease payments	**–**	432
Gross rental income from investment properties (included in other income)	**(2,135)**	(2,117)
Less: Direct expenses of investment properties that generated rental income during the period	**357**	417
	(1,778)	(1,700)

7. DIVIDENDS

The board of directors of the Company (the "Board") has resolved not to declare any interim dividend for the six months ended 30th June, 2019.

During the six months ended 30th June, 2019, the Board did not recommend the payment of a final dividend for the year ended 31st December, 2018. During the six months ended 30th June, 2018, the Board resolved not to declare any interim dividend but resolved to declare a special dividend of 5.0 HK cents per share (with a scrip dividend option) for the six months ended 30th June, 2018 on 30th August, 2018.

8. LOSS PER SHARE

The calculation of the basic loss per share attributable to the ordinary equity holders of the Company is based on the following data:

	Six months ended	
	30.6.2019	30.6.2018
	HK$'000	*HK$'000*
Loss for the purpose of basic loss per share — Loss for the period attributable to owners of the Company	**(54,521)**	(24,426)
	Number of shares	
Number of shares for the purpose of basic loss per share	**386,263,374**	383,650,000

No diluted loss per share has been presented as there was no potential ordinary shares in issue for both periods.

9. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1st January, 2018	154,190
Reclassification from property, plant and equipment	3,170
Increase in fair value recognised in profit or loss	20,250
At 31st December, 2018	177,610
Increase in fair value recognised in profit or loss	860
At 30th June, 2019	178,470

All of the Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

In determining the fair value of investment properties, it is the Group's policy to engage an independent firm of qualified professional valuers to perform the valuation. The Group works closely with the qualified external valuers to establish the appropriate valuation technique and key inputs to the model.

On 30th June, 2019 and 31st December, 2018, independent valuations were undertaken by Vigers Appraisal & Consulting Limited, an independent firm of professional valuers not connected to the Group which has appropriate professional qualifications and recent experience in the valuation of similar properties in the neighbourhood.

9. INVESTMENT PROPERTIES (continued)

The valuations have been arrived at using income capitalisation approach. The valuations have been arrived by capitalising the market rentals of all lettable units of the properties by reference to the rentals achieved in the lettable units as well as other lettings of similar properties in the neighbourhood. The capitalisation rate adopted is made by reference to the reversion yield and monthly market rent and contracted monthly rent of similar properties in the locality and adjusted based on the valuers' knowledge of the factors specific to the respective properties. There has been no change from the valuation technique used in the prior period.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30th June, 2019, the Group acquired property, plant and equipment of approximately HK$4,739,000 (six months ended 30th June, 2018: HK$8,601,000).

11. INTEREST IN AN ASSOCIATE

On 27th March, 2019, the Group entered into a share purchase agreement with an existing shareholder of the Group's associate ("Vendor"), pursuant to which Vendor agreed to sell and the Group agreed to purchase 7.5% of the issued share capital of the associate for a consideration of €787,500 (equivalent to approximately HK$6,941,000) and reinvested of dividend (see below). The transaction was completed on 10th April, 2019. Up to 30th June, 2019, the Group has paid €630,000 (equivalent to approximately HK$5,553,000) to the Vendor and the remaining consideration will be settled on 31st December, 2020, 31st December, 2022 and 31st January, 2025 pursuant to the share purchase agreement.

In addition, during the six months ended 30th June, 2019, the dividend declared by the associate of €370,000 (equivalent to approximately HK$3,245,000) (net of withholding tax of €130,000 (equivalent to approximately HK$1,140,000)) was reinvested into the associate.

In addition, on 27th March, 2019, the Group entered into an option agreement with an independent third party ("Buyer"), pursuant to which the Buyer and the Group granted each other reciprocal call and put options in respect of 12.5% of the issued share capital of the Group's associate, the exercise price of the option is ranging from €1,000,000 (equivalent to approximately HK$8,863,000) to €1,562,500 (equivalent to approximately HK$13,848,000). Buyer is entitled to exercise the call option during the period from 1st October, 2020 to 31st March, 2021 or the period from 1st October, 2021 to 31st March, 2022. The Group is entitled to exercise the put option during the period from 1st April, 2022 to 31st May, 2022.

12. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group has a policy of allowing a credit period of 30 days to 120 days to its trade debtors.

Included in the Group's debtors, deposits and prepayments are trade debtors of HK$244,137,000 (31st December, 2018: HK$339,056,000). The following is an aged analysis of trade debtors net of allowance for credit losses presented based on the invoice date at the end of the reporting period which approximated the respective revenue recognition dates:

	30.6.2019	31.12.2018
	HK$'000	*HK$'000*
0 – 90 days	**202,681**	234,801
91 – 180 days	**34,938**	101,281
More than 180 days	**6,518**	2,974
	244,137	339,056

As at 30th June, 2019, total bills received amounting to HK$945,000 (31st December, 2018: HK$505,000) are held by the Group for settlement of debtors. The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills received by the Group are with a maturity period of less than one year.

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30th June, 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2018.

During the six months ended 30th June, 2019, the Group provided HK$8,490,000 impairment allowance, in particular, a specific loss allowance of HK$8,226,000 has been made to an individual debtor due to the recoverability is considered to be remote.

During the six months ended 30th June, 2019, the Group reversed the impairment allowance of HK$5,085,000.

12. DEBTORS, DEPOSITS AND PREPAYMENTS (continued)

Trade debtors due from the associate, joint venture and non-controlling shareholder of a subsidiary

Included in the Group's trade debtors is an amount due from the Group's associate of HK$21,911,000 net of allowance for credit losses of HK$213,000 (31st December, 2018: HK$31,172,000 net of allowance for credit losses of HK$200,000), an amount due from the Group's joint venture of HK$547,000 net of allowance for credit losses of HK$9,000 (31st December, 2018: HK$182,000 net of allowance for credit losses of HK$34,000) and an amount due from the non-controlling shareholder of a subsidiary of the Group of HK$1,276,000 (31st December, 2018: HK$915,000), which are repayable on similar credit terms with reference to those offered to the customers of the Group who are similar in size and stature. The amounts outstanding are unsecured with carrying amount of HK$3,356,000 (31st December, 2018: HK$3,643,000) which are past out of the past due balances, HK$491,000 (31st December, 2018: HK$405,000) has been past due 90 days or more and is not considered as in default. A reversal of impairment loss of HK$12,000 (30th June, 2018: nil impairment loss) has been recognised in respect of the amounts outstanding from the associate and joint venture.

13. CREDITORS AND ACCRUED CHARGES

	30.6.2019	31.12.2018
	HK$'000	*HK$'000*
Trade creditors	**91,807**	113,023
Other creditors and accrued charges	**274,107**	286,092
	365,914	399,115

The following is an aged analysis of trade creditors presented based on the invoice date at the end of the reporting period:

	30.6.2019	31.12.2018
	HK$'000	*HK$'000*
0 – 60 days	**83,139**	98,051
61 – 120 days	**6,239**	12,771
More than 120 days	**2,429**	2,201
	91,807	113,023

Trade creditor due to the associate

Included in the Group's trade creditors is an amount due to the Group's associate of HK$45,000 (31st December, 2018: HK$532,000), which is repayable on similar credit terms with reference to those offered from the suppliers of the Group who are similar in size and stature. The amount outstanding is unsecured and not past due at the end of the reporting period.

14. BANK BORROWINGS

	30.6.2019	31.12.2018
	HK$'000	*HK$'000*
Secured bank borrowings	**27,989**	30,641
Carrying amount of the bank borrowings repayable based on repayment schedules:		
— within one year	**5,395**	5,325
— more than one year, but not exceeding two years	**5,569**	5,491
— more than two years, but not exceeding five years	**17,025**	17,522
— more than five years	**–**	2,303
	27,989	30,641
Less: Carrying amount of bank borrowings that contain a repayment on demand clause (shown under current liabilities)	**(27,989)**	(30,641)
Amounts due after one year shown under non-current liabilities	**–**	–

All of the Group's bank borrowings are variable-rate borrowings and subject to cash flow interest rate risk. A bank borrowing of HK$21,028,000 (31st December, 2018: HK$23,046,000) carries interest at Hong Kong Prime Rate less 2.6%. The borrowing is secured by the Group's investment properties with carrying amount of HK$178,470,000 (31st December, 2018: HK$177,610,000).

A bank borrowing of HK$6,961,000 (31st December, 2018: HK$7,595,000) is secured by the Group's leasehold land and buildings with carrying amount of HK$29,868,000 (31st December, 2018: HK$30,441,000) and carries interest at one-month Hong Kong Interbank Offered Rate plus 1.8%.

15. CAPITAL COMMITMENTS

	30.6.2019	31.12.2018
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
— set up cost of investment in subsidiaries	**203,602**	301,816
— right-of-use assets	**1,810**	—
— prepaid lease payments	**—**	1,810
— property, plant and equipment	**3,192**	2,011
	208,604	305,637

16. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following transactions with related parties:

	An associate Six months ended		**A joint venture Six months ended**		**A non-controlling shareholder of a subsidiary Six months ended**	
	30.6.2019	30.6.2018	**30.6.2019**	30.6.2018	**30.6.2019**	30.6.2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Trade sales	**24,112**	22,348	**624**	24	**1,815**	3,055
Trade purchases	**804**	336	**—**	—	**—**	—

Sales of goods to the associate, joint venture and non-controlling shareholder of a subsidiary were made at the Group's usual list prices.

Other than the above, the details of trade debtors from and trade creditor to the associate, joint venture and non-controlling shareholder of a subsidiary are shown in notes 12 and 13 respectively. No guarantees have been given to or received from the associate, joint venture and non-controlling shareholder of a subsidiary.

16. RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel

The remuneration of Directors and other members of key management during the period was as follows:

	Six months ended	
	30.6.2019	30.6.2018
	HK$'000	*HK$'000*
Short-term benefits	**5,044**	5,217
Post-employment benefits	**412**	269
	5,456	5,486

The remuneration of executive directors and key executives was determined by the Remuneration Committee having regard to the performance of individuals and market trends. The remuneration of independent non-executive directors was recommended by the Board and approved by the shareholders of the Company at the annual general meeting.

17. MAJOR NON-CASH TRANSACTION

During the six months ended 30th June, 2019, dividend from the associate of HK$3,245,000 (net of withholding tax of HK$1,140,000) was reinvested into the associate. Details of which are disclosed in note 11.

DIVIDENDS

The board of directors of the Company (the "Board") has resolved not to declare any interim dividend (2018: nil) for the six months ended 30th June, 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") as its own code of conduct regarding securities transactions by the directors of the Company (the "Directors"). Having made specific enquiry of the Directors, all the Directors confirmed that they had complied with the required standards as set out in the Model Code throughout the six months ended 30th June, 2019.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the six months ended 30th June, 2019.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th June, 2019, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Shares in the Company (Long Positions)

	Number of issued ordinary shares held				
Name of Director	**Personal interests**	**Family interests**	**Other interests**	**Total**	**Approximate percentage of issued share capital of the Company**
Ng Hoi Ying, Michael	2,856,000	5,656,000	153,600,000 *(Note)*	162,112,000	41.97%
Ng Kim Ying	23,126,347	5,000,000	–	28,126,347	7.28%

Note: These shares were held by Ratagan International Company Limited ("Ratagan"). The entire issued share capital of Ratagan was held by Maritime Overseas Assets Limited which was wholly-owned by HSBC International Trustee Limited as trustee of The Arts 2007 Trust, a discretionary trust, the settlor of which was Mr. Ng Hoi Ying, Michael and the beneficiaries of which included Mr. Ng Hoi Ying, Michael.

Save as disclosed above, as at 30th June, 2019, none of the Directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed under the heading "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, as at 30th June, 2019, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Shares in the Company (Long Positions)

Name of shareholder	Capacity	Number of issued ordinary shares held		Approximate percentage of issued share capital of the Company
HSBC International Trustee Limited	Trustee	153,600,000	*(Note a)*	39.77%
Maritime Overseas Assets Limited	Held by controlled corporation	153,600,000	*(Note a)*	39.77%
Ratagan International Company Limited	Beneficial owner	153,600,000	*(Note a)*	39.77%
FMR LLC	Held by controlled corporation	30,870,000	*(Note b)*	7.99%
Fidelity Puritan Trust	Beneficial owner	23,158,400	*(Note c)*	6.00%
David Michael Webb	Beneficial owner	9,745,000	*(Note d)*	2.52%
	Held by controlled corporation	21,237,000	*(Note e)*	5.50%
Preferable Situation Assets Limited	Beneficial owner	21,237,000	*(Note e)*	5.50%

Notes:

(a) HSBC International Trustee Limited ("HSBCITL") was the trustee of The Arts 2007 Trust. The Arts 2007 Trust was a discretionary trust, the settlor of which was Mr. Ng Hoi Ying, Michael and the beneficiaries of which included Mr. Ng Hoi Ying, Michael. Under The Arts 2007 Trust, 153,600,000 shares of the Company were held by Ratagan International Company Limited ("Ratagan"). The entire issued share capital of Ratagan was held by Maritime Overseas Assets Limited which was wholly-owned by HSBCITL.

(b) According to a corporate substantial shareholder notice filed by FMR LLC on 5th November, 2018 (with the date of the relevant event as set out in the corporate substantial shareholder notice being 31st October, 2018), FMR LLC held 30,870,000 shares of the Company indirectly through FMR Co., Inc.. FMR Co., Inc. is wholly-owned by Fidelity Management & Research Company, which is a wholly-owned subsidiary of FMR LLC. Of the above-mentioned 30,870,000 shares of the Company held by FMR Co., Inc., 3,488,000 shares of the Company were held for Fidelity Management Trust Company, which is wholly-owned by FMR LLC, while 3,700,000 shares of the Company were held for Fidelity Investments Canada ULC, which is ultimately owned by certain employees and shareholders of FMR LLC. Those employees and shareholders of FMR LLC own 100% equity interest in Fidelity Canada Investors LLC, which owns 49% equity interest in 483A Bay Street Holdings LP. 483A Bay Street Holdings LP owns 100% equity interest in BlueJay Lux 1 S.a.r.l., which owns 100% equity interest in FIC Holdings ULC, which in turn owns 100% equity interest in Fidelity Investments Canada ULC.

(c) According to a corporate substantial shareholder notice filed by Fidelity Puritan Trust on 28th January, 2019, as at 23rd January, 2019 (i.e. the date of the relevant event as set out in the corporate substantial shareholder notice filed on 28th January, 2019), 23,158,400 shares of the Company were held directly by Fidelity Puritan Trust.

(d) According to an individual substantial shareholder notice filed by Mr. David Michael Webb ("Mr. Webb") on 26th April, 2019, as at 23rd April, 2019 (i.e. the date of the relevant event as set out in the individual substantial shareholder notice filed on 26th April, 2019), 9,745,000 shares of the Company were held directly by Mr. Webb.

(e) These shares were directly held by Preferable Situation Assets Limited ("PSAL"). Mr. Webb was deemed to be interested in the 21,237,000 shares of the Company held by PSAL under Part XV of the SFO.

CORPORATE GOVERNANCE

The Company has complied with all applicable code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules throughout the six months ended 30th June, 2019, except for deviation from code provision A.2.1 of the CG Code. Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Ng Hoi Ying, Michael ("Mr. Ng") is the founder and chairman of the Group. The Company does not at present have any officer with the title "chief executive officer" and Mr. Ng has been carrying out the duties of both the chairman and chief executive officer since the establishment of the Group. The Board intends to maintain this structure in future as it believes that this ensures efficient and effective formulation and implementation of business strategies without compromising the balance of power and authority between the Board and management of the Company.

Supplementary Information

An Audit Committee has been established by the Company since 1998 and currently comprises Mr. Wong Chi Wai (chairman of the Audit Committee), Mr. Chung Hil Lan Eric and Mr. Lam Yu Lung, all of whom are independent non-executive directors. The duties of the Audit Committee include (but are not limited to) review of the interim and annual reports of the Group as well as various auditing, financial reporting, risk management and internal control matters with the management and/or external auditor of the Company. The Group's interim report comprising its unaudited condensed consolidated financial statements for the six months ended 30th June, 2019 has been reviewed by the Audit Committee and the Company's auditor, Messrs. Deloitte Touche Tohmatsu.

A Remuneration Committee has been established by the Company since 2003 and currently comprises Mr. Chung Hil Lan Eric (chairman of the Remuneration Committee), Mr. Wong Chi Wai and Mr. Lam Yu Lung, all of whom are independent non-executive directors. The major roles and functions of the Remuneration Committee include the determination of remuneration of executive directors and senior management as well as review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives.

A Nomination Committee has been established by the Company since 2012 and currently comprises Mr. Lam Yu Lung (chairman of the Nomination Committee), Mr. Wong Chi Wai and Mr. Chung Hil Lan Eric, all of whom are independent non-executive directors. The duties of the Nomination Committee include (but are not limited to) reviewing the structure, size and composition of the Board, assessing the independence of the independent non-executive directors, making recommendations to the Board on the appointment or re-appointment of directors and determining the nomination criteria and nomination procedures of appointment of new and replacement directors, re-election of directors and nomination from shareholders.