

ASCENT

INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 0264

2019

INTERIM REPORT

CONTENTS

- 2 Corporate Information
- 4 Financial Highlights
- 5 Condensed Consolidated Statement of Comprehensive Income
- 7 Condensed Consolidated Statement of Financial Position
- 9 Condensed Consolidated Statement of Changes in Equity
- 10 Condensed Consolidated Statement of Cash Flows
- 11 Notes to the Condensed Interim Financial Statements
- 29 Management Discussion and Analysis

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Zhao Jingfei (*Chairman and appointed on 22 July 2019*)

Fan Xin (*Appointed on 22 July 2019*)

Qin Bohan (*Appointed on 9 September 2019*)

Wang Wei (*Resigned on 22 July 2019*)

Independent Non-executive Directors

Han Yu (*Appointed on 9 September 2019*)

Jia Lixin (*Appointed on 9 September 2019*)

Rong Yi (*Appointed on 9 September 2019*)

Wong Kwun Ho (*Resigned on 9 September 2019*)

Liang Jianhai (*Resigned on 9 September 2019*)

Chong Man Hung Jeffrey (*Resigned on 9 September 2019*)

COMPANY SECRETARY

Chan Tsang Mo

AUDIT COMMITTEE

Han Yu (*Committee Chairlady and appointed on 9 September 2019*)

Jia Lixin (*Appointed on 9 September 2019*)

Rong Yi (*Appointed on 9 September 2019*)

Chong Man Hung Jeffrey (*Resigned on 9 September 2019*)

Wong Kwun Ho (*Resigned on 9 September 2019*)

Liang Jianhai (*Resigned on 9 September 2019*)

NOMINATION COMMITTEE

Zhao Jingfei

(*Committee Chairman and appointed on 22 July 2019*)

Han Yu (*Appointed on 9 September 2019*)

Jia Lixin (*Appointed on 9 September 2019*)

Rong Yi (*Appointed on 9 September 2019*)

Wong Kwun Ho (*Resigned on 9 September 2019*)

Liang Jianhai (*Resigned on 9 September 2019*)

Chong Man Hung Jeffrey (*Resigned on 9 September 2019*)

Wang Wei (*Resigned on 22 July 2019*)

REMUNERATION COMMITTEE

Fan Xin (*Appointed on 22 July 2019*)

Rong Yi (*Committee Chairman and appointed on 9 September 2019*)

Han Yu (*Appointed on 9 September 2019*)

Jia Lixin (*Appointed on 9 September 2019*)

Wong Kwun Ho (*Resigned on 9 September 2019*)

Chong Man Hung Jeffrey (*Resigned on 9 September 2019*)

Liang Jianhai (*Resigned on 9 September 2019*)

Wang Wei (*Resigned on 22 July 2019*)

REGISTERED OFFICE

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Hutchins Drive
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Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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39 Queen's Road Central
Central
Hong Kong

PRINCIPAL BANKERS

Bank of Communications Co. Ltd.
Hong Kong Branch
Nanyang Commercial Bank Limited
OCBC Wing Hang Bank Limited
Bank of China (Hong Kong) Limited
Standard Chartered Bank (Hong Kong)
Limited

AUDITOR

BDO Limited
Certified Public Accountants

LEGAL ADVISER ON THE CAYMAN ISLANDS LAW

Conyers Dill & Pearman

LEGAL ADVISER ON HONG KONG LAW

Li & Partners

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
3rd Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE AND REGISTRAR AND TRANSFER OFFICE

Tricor Investor Service Limited
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Hopewell Centre
183 Queen's Road East
Hong Kong

COMPANY WEBSITE

www.irasia.com/listco/hk/ascent/index.htm

STOCK CODE

264

FINANCIAL HIGHLIGHTS

For the six months ended
30 June

	2019 Unaudited HK\$'000	2018 Unaudited HK\$'000
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Operating results

Revenue	26,816	34,626
Gross profit	12,799	17,674
Gross profit margin	47.7%	51.0%
Loss before income tax expense	10,156	8,869
Loss for the period	10,158	8,869
Loss per share	HK2.65 cents	HK2.32 cents

	At at 30 June 2019 Unaudited HK\$'000	As at 31 December 2018 Audited HK\$'000
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Total assets	55,584	55,230
Cash and cash equivalents	14,966	25,729
Total equity attributable to equity shareholders of the Company	18,243	28,057

Business performance ratios

Current ratio	1.33	2.12
Quick ratio	0.87	1.53

The Board of Directors (the “Directors”) of Ascent International Holdings Limited (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Notes	Six months ended 30 June	
		2019 Unaudited HK\$'000	2018 Unaudited HK\$'000
Revenue	4	26,816	34,626
Cost of sales		(14,017)	(16,952)
<hr/>			
Gross profit		12,799	17,674
Other income and gains		263	239
Selling and distribution costs		(5,683)	(7,983)
Administrative and other operating expenses		(17,246)	(17,109)
Finance costs	3(b)	(289)	(40)
Share of loss of a joint venture		—	(1,650)
<hr/>			
Loss before income tax expense	5	(10,156)	(8,869)
Income tax expense	6	(2)	—
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Loss for the period attributable to owners of the Company		(10,158)	(8,869)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Six months ended 30 June	
	2019	2018
Notes	Unaudited HK\$'000	Unaudited HK\$'000
Other comprehensive income		
<i>Items that may be subsequently reclassified to profit or loss:</i>		
— Exchange differences arising on translation of financial statements of operations outside Hong Kong	344	(393)
Other comprehensive income for the period	344	(393)
Total comprehensive income for the period attributable to owners of the Company	(9,814)	(9,262)
Loss per share attributable to owners of the Company		
— Basic and diluted	8 (HK2.65 cents)	(HK2.32 cents)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	<i>Notes</i>	As at 30 June 2019 Unaudited HK\$'000	As at 31 December 2018 Audited HK\$'000
Non-current assets			
Property, plant and equipment		1,435	506
Deposits paid		587	584
Right-of-use assets	<i>3(b)</i>	8,819	—
		10,841	1,090
Current assets			
Inventories		15,451	14,096
Trade and bills receivables	<i>9</i>	10,023	7,074
Other receivables, deposits and prepayments		4,026	3,965
Amount due from former fellow subsidiaries		8	8
Tax recoverable		269	268
Bank balances and cash		14,966	25,729
		44,743	51,140
Current liabilities			
Trade payables	<i>10</i>	2,928	2,643
Other payables and accrued charges		11,594	7,769
Amounts due to former fellow subsidiaries		8,171	8,171
Amount due to a former intermediate holding company		5,590	5,590
Lease liabilities	<i>3(b)</i>	5,389	—
		33,672	24,173

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

AS AT 30 JUNE 2019

	As at 30 June 2019 Unaudited HK\$'000	As at 31 December 2018 Audited HK\$'000
<i>Notes</i>		
Net current assets	11,071	26,967
Total assets less current liabilities	21,912	28,057
Non-Current liabilities		
Lease liabilities	3(b) 3,669	—
Net assets	18,243	28,057
Capital and reserves attributable to owners of the Company		
Share capital	11 3,827	3,827
Reserves	14,416	24,230
Total equity	18,243	28,057

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Share capital Unaudited HK\$'000	Share premium Unaudited HK\$'000	Foreign exchange reserve Unaudited HK\$'000	Statutory and discretionary reserve Unaudited HK\$'000	Accumulated losses Unaudited HK\$'000	Total Unaudited HK\$'000
At 1 January 2018	3,827	77,760	3,774	5,249	(29,084)	61,526
Total comprehensive income for the period	–	–	(393)	–	(8,869)	(9,262)
At 30 June 2018	3,827	77,760	3,381	5,249	(37,953)	52,264
At 1 January 2019	3,827	77,760	1,771	5,249	(60,550)	28,057
Total comprehensive income for the period	–	–	344	–	(10,158)	(9,814)
At 30 June 2019	3,827	77,760	2,115	5,249	(70,708)	18,243

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Six months ended 30 June	
	2019 Unaudited HK\$'000	2018 Unaudited HK\$'000
Net cash used in operating activities	(7,341)	(1,602)
Net cash used in investing activities	(983)	(19,984)
Net cash (used in)/ from financing activities	(2,555)	365
Net decrease in cash and cash equivalents	(10,879)	(21,221)
Cash and cash equivalents at the beginning of the period	25,729	44,507
Effect of foreign exchange rate changes on cash and cash equivalents	116	(120)
Cash and cash equivalents at the end of the period	14,966	23,166

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. GENERAL

The Company was incorporated in the Cayman Islands on 12 April 2002 as an exempted company with limited liability under the Companies Law of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (“Stock Exchange”). As disclosed in the Company’s joint announcement dated 7 May 2019, Twinkle Link Limited, a former ultimate holding Company of the Company, has transferred approximately 75% of the share capital of the Company to Waterfront Holding Group Co., Ltd. (“Waterfront”), a company incorporated in the British Virgin Islands (the “BVI”). As at 30 June 2019, the directors of the Company consider the Company’s immediate and ultimate holding company is Waterfront and its ultimate controlling party was Mr. Zhao Jingfei. The address of the registered office and principal place of business of the Company are disclosed in the corporate information of the interim financial report.

The unaudited condensed interim financial statements are presented in Hong Kong dollars (“HK\$”), which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION

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

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

This condensed consolidated interim financial statements contains condensed consolidated interim 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 consolidated financial statements for the year ended 31 December 2018 (“2018 Annual Financial Statements”). The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements has been prepared in accordance with the same accounting policies adopted in the 2018 Annual Financial Statements, except for the accounting policy changes that are required to be adopted in the financial statements for the year ending 31 December 2019. Details of these changes in accounting policies are set out below.

Changes in Accounting Policies

(a) Overview

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group as follows:

- HKFRS 16, Leases
- HK(IFRIC)-Int 23, Uncertainty over Income Tax Treatments
- Annual Improvements 2015–2017 Cycle, Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23
- 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

Other than as explained below regarding the impact of adoption of HKFRS 16, Leases, the new and amendments to HKFRSs that are relevant to the preparation of the Group's condensed consolidated financial statements have no material impact on the Group's financial performance and cash flows for current period and financial position.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(a) Overview (Continued)

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

(b) Adoption of HKFRS 16, Leases

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 (i.e. date of initial adoption of HKFRS 16). The right-of-use assets were measured at the amount of the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to the leases recognised in the condensed consolidated statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets and the lease liabilities separately in the condensed consolidated statement of financial position.

The Group has adopted the following practical expedients to exclude initial direct costs for the measurement of right-of-use assets when applying HKFRS 16 at 1 January 2019.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**(b) Adoption of HKFRS 16, Leases** (Continued)

(i) The impacts arising from the adoption of HKFRS 16 are as follows:

Line items of condensed consolidated statement of financial position as at 1 January 2019

	Unaudited HK\$'000
Assets	
Increase in right-of-use assets	8,285
Increase in total assets	8,285
Liabilities	
Increase in lease liabilities (non-current)	4,446
Increase in lease liabilities (current)	3,839
Increase in total liabilities	8,285

Line items of the condensed consolidated statement of comprehensive income for the six months ended 30 June 2019

	Unaudited HK\$'000
Increase in depreciation on right-of-use assets	2,508
Increase in interest in lease liabilities	289
Decrease in operating lease charges	(2,555)
Increase in loss for the period	242

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**(b) Adoption of HKFRS 16, Leases** (Continued)

- (i) The impacts arising from the adoption of HKFRS 16 are as follows:
(Continued)

**Line items of condensed consolidated statement of cash flows
for the six months ended 30 June 2019**

	Unaudited HK\$'000
Decrease in net cash used in operating activities	
Decrease in operating lease charges	2,555
Increase in net cash used in financing activities	
Payment of capital element of lease liabilities	2,266
Payment of interest element of lease liabilities	289
	2,555

- (ii) The lease liabilities as at 1 January 2019 reconciled to the operating leases commitments as at 31 December 2018 is as follows:

	Unaudited HK\$'000
Operating lease commitments as at 31 December 2018	10,842
Weighted average incremental borrowing rate as at 1 January 2019	7.0%
Less: Short-term lease ends within 31 December 2019	(1,912)
Less: Future interest expenses	(645)
Lease liabilities as at 1 January 2019	8,285

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(b) Adoption of HKFRS 16, Leases (Continued)

- (ii) The lease liabilities as at 1 January 2019 reconciled to the operating leases commitments as at 31 December 2018 is as follows:
(Continued)

Summary of new accounting policies

The accounting policy for leases as disclosed in the 2018 Annual Financial Statements is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. 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, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(b) Adoption of HKFRS 16, Leases (Continued)

- (ii) The lease liabilities as at 1 January 2019 reconciled to the operating leases commitments as at 31 December 2018 is as follows:
(Continued)

Lease liabilities (Continued)

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. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of property, plant and equipment (i.e. those leases 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 lease of low value assets recognition exemption to leases of office equipment that are considered as low value. 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.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**(b) Adoption of HKFRS 16, Leases (Continued)**

(iii) Amounts recognised in the condensed consolidated statement of financial position and condensed consolidated statement of comprehensive income:

	Right-of-use assets Unaudited HK\$'000	Lease liabilities Unaudited HK\$'000
As at 1 January 2019	8,285	8,285
Additions	2,980	2,980
Depreciation charge	(2,508)	—
Interest expense	—	289
Payments	—	(2,555)
Exchange realignment	62	59
As at 30 June 2019	8,819	9,058
		Unaudited HK\$'000
Lease liabilities as at 30 June 2019		
— Included in current liabilities		5,389
— Included in non-current liabilities		3,669
		9,058

4. REVENUE AND SEGMENT INFORMATION

The principal activities of the Group are manufacturing and distribution of leather products, retail of fashion apparel, footwear and leather accessories.

The Group determines its operating segments based on the reports reviewed by the chief operating decision maker that are used to make strategic decisions.

The Group has two reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- | | |
|------------------------|---|
| Manufacturing business | – Manufacturing and distribution of leather products |
| Retail business | – Retail of fashion apparel, footwear and leather accessories |

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments' result that is used by the chief operating decision makers for assessment of segment performance.

	Manufacturing business		Retail business		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018	2019	2018
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	19,379	21,635	7,437	12,991	26,816	34,626
Inter-segment revenue	1,917	2,212	–	–	1,917	2,212
Reportable segment revenue (Note (i))	21,296	23,847	7,437	12,991	28,733	36,838
Reportable segment loss	(1,239)	(961)	(1,447)	(19)	(2,686)	(980)
Elimination of inter-segment losses					101	473
Interest income					161	33
Share of loss of a joint venture					–	(1,650)
Unallocated corporate expenses (Note (ii))					(7,732)	(6,745)
Loss before income tax expense					(10,156)	(8,869)
Income tax expense					(2)	–
Loss for the period					(10,158)	(8,869)

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

	Manufacturing business		Retail business		Total	
	As at 30 June 2019 Unaudited HK\$'000	As at 31 December 2018 Audited HK\$'000	As at 30 June 2019 Unaudited HK\$'000	As at 31 December 2018 Audited HK\$'000	As at 30 June 2019 Unaudited HK\$'000	As at 31 December 2018 Audited HK\$'000
Reportable segment assets	41,743	39,209	11,758	7,905	53,501	47,114
Tax recoverable					269	268
Unallocated corporate bank balances and cash					644	3,898
Other unallocated corporate assets					1,170	950
Consolidated total assets					55,584	52,230
Reportable segment liabilities	14,232	7,537	3,266	674	17,498	8,211
Amounts due to former fellow subsidiaries					8,171	8,171
Amount due to a former intermediate holding company					5,590	5,590
Unallocated corporate liabilities (Note (iii))					6,082	2,201
Consolidated total liabilities					37,341	24,173

Notes:

- (i) Revenue from manufacturing business and retail business is recognised at a point in time when the control of the products has been passed to customers.
- (ii) The amount represented unallocated corporate expenses that are not allocated to operating segments, including professional fees, directors' emoluments, employee costs, foreign exchange loss and other head office expenses.
- (iii) The amount represented unallocated deposits received and accrued head office professional fees and staff costs.

5. LOSS BEFORE INCOME TAX EXPENSE

Loss before income tax expense is arrived at after charging:

	Six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Cost of inventories recognised as expenses	14,017	16,952
Depreciation of property, plant and equipment	216	133
Depreciation of right-of-use assets	2,508	—
Foreign exchange loss, net	270	60
Operating lease rentals in respect of land and buildings	—	6,428
Short term lease	2,322	—
Staff costs (excluding directors' emoluments)	15,124	14,026
(Reversal of impairment)/impairment loss on trade and bills receivables, net	(16)	219
and crediting:		
Interest income	161	33
Reversal of write-down of inventories, net (included in cost of sales)	515	149

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Current taxation:		
– People's Republic of China ("PRC") enterprise income tax	2	–

No provision for Hong Kong profits tax has been made as the Group has sustained estimated tax losses for both periods. The PRC enterprise income tax rate for the Company's subsidiaries in the PRC is 25% (six months ended 30 June 2018: 25%).

In February 2018, the Hong Kong Inland Revenue Department ("IRD") initiated a tax audit on certain subsidiaries of the Company. As any claims in respect of the year of assessment 2011/12 would be statutorily time-barred after 31 March 2018, the IRD has issued assessment/additional assessments amounting to HK\$648,000 to these subsidiaries to keep the year of assessment 2011/12 open for review. Objection against this assessment/additional assessment has been duly lodged by the Company and no additional payment is required to be made by the Company up to 30 June 2019.

On 11 March 2019, the IRD issued additional assessments amounting to HK\$485,000 to certain subsidiaries of the Group for the year of assessment 2012/13. Objections against this additional assessments were raised by the certain subsidiaries in April 2019.

6. INCOME TAX EXPENSE (CONTINUED)

Up to the present, the tax audit has not yet been commenced by the IRD and is still pending for fact-finding with different views to be exchanged with the IRD, the outcome of the tax audit cannot be readily ascertained with reasonable certainty. Nevertheless, management have performed assessment and based on the existing facts and circumstances, they consider the aforementioned subsidiaries have properly complied with the applicable Inland Revenue Ordinance in preparation of its Hong Kong Profits Tax computations for previous years. Therefore, for the purpose of the current year's Hong Kong Profits Tax computation, management have followed the same basis as adopted in the prior years and consider no additional provision of Hong Kong Profits Tax is required to be made in the condensed consolidated financial statements for the six months ended 30 June 2019 in respect of the current and prior periods. Management have sought for assistance from tax specialists in handling the tax audit.

7. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2019 and 30 June 2018.

8. LOSS PER SHARE

The calculations of basic loss per share is based on the Group's loss for the period of HK\$10,158,000 (six months ended 30 June 2018: HK\$8,869,000) attributable to owners of the Company respectively and the weighted average number of 382,704,000 (six months ended 30 June 2018: 382,704,000) ordinary shares in issue during the period.

For the six months ended 30 June 2019 and 30 June 2018, diluted loss per share is equal to the basic loss per share for the respective periods as there is no potential dilutive ordinary share in issue for the six months ended 30 June 2019 and 30 June 2018.

9. TRADE AND BILLS RECEIVABLES

	As at 30 June 2019 Unaudited HK\$'000	As at 31 December 2018 Audited HK\$'000
Trade and bills receivables	10,979	8,046
Less: allowance for impairment loss	(956)	(972)
	10,023	7,074

Customers are generally granted with credit terms of 30 to 90 days. The ageing analysis of trade and bills receivables based on invoice date (net of impairment loss) at the end of reporting period is as follows:

	As at 30 June 2019 Unaudited HK\$'000	As at 31 December 2018 Audited HK\$'000
Less than 30 days	4,165	1,052
31–60 days	5,296	4,844
61–90 days	432	648
91–120 days	4	101
121–365 days	4	308
More than 365 days	122	121
	10,023	7,074

10. TRADE PAYABLES

Details of the ageing analysis based on invoice date are as follows:

	As at 30 June 2019 Unaudited HK\$'000	As at 31 December 2018 Audited HK\$'000
Less than 30 days	1,559	1,268
31–60 days	407	570
61–90 days	104	103
91–120 days	233	23
121–365 days	109	307
More than 365 days	516	372
	2,928	2,643

11. SHARE CAPITAL***Authorised and issued share capital***

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2018(Unaudited), 31 December 2018, (Audited) 1 January 2019 (Unaudited) and 30 June 2019 (Unaudited)	2,000,000,000	20,000
Issued and fully paid:		
At 1 January 2018(Unaudited), 31 December 2018, (Audited) 1 January 2019(Unaudited) and 30 June 2019(Unaudited)	382,704,000	3,827

12. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2019 and 31 December 2018.

13. RELATED PARTY TRANSACTIONS

(a) During the period, the Group had entered into the following transactions with related parties:

	Six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Rental expenses paid to Mr. Chan Woon Man and Ms. Tsang Sau Lin for office premises (<i>Note</i>)	390	390
Interest expense paid to a joint venture	—	40
	390	430

Note: Mr. Chan Woon Man was a director of a subsidiary of the Company. Ms. Tsang Sau Lin is the wife of Mr. Chan Woon Man.

(b) 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 June	
	2019	2018
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Short-term benefits	1,002	1,042
Post employment benefits	18	9
	1,020	1,051

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE REVIEW

For the six months ended 30 June 2019, the Group's revenue decreased by approximately 22.6% from approximately HK\$34,626,000 for the six months ended 30 June 2018 to approximately HK\$26,816,000. Gross profit decreased by approximately 27.6% from approximately HK\$17,674,000 for the six months ended 30 June 2018 to approximately HK\$12,799,000. Gross profit margin decreased from approximately 51.0% for the six months ended 30 June 2018 to approximately 47.7% for the six months ended 30 June 2019. The reason of the decrease in gross profit is mainly due to the purchasing of new inventory which costed higher for certain new sales orders in manufacturing business and increase in staff cost during the period.

Other income and gains increased by 10.0% from approximately HK\$239,000 for the six months ended 30 June 2018 to approximately HK\$263,000 for the six months ended 30 June 2019.

Selling and distribution costs decreased by approximately 28.8% from approximately HK\$7,983,000 for the six months ended 30 June 2018 to approximately HK\$5,683,000 for the six months ended 30 June 2019, which was in line with the decrease in revenue. Administrative and other operating expenses remained relatively stable at approximately HK\$17,246,000 for the six months ended 30 June 2019, as compared with approximately HK\$17,109,000 for the six months ended 30 June 2018.

As a result of the above, the Group recorded a net loss attributable to owners of the Company of approximately HK\$10,158,000 for the reporting period (six months ended 30 June 2018: HK\$8,869,000). Loss per share for the six months ended 30 June 2019 was HK2.65 cents (six months ended 30 June 2018: HK2.32 cents).

BUSINESS REVIEW

During the reporting period, the two business segments – manufacturing and retail accounted for approximately 72.3% (six months ended 30 June 2018: 62.5%) and approximately 27.7% for the six months ended 30 June 2019 (six months ended 30 June 2018: approximately 37.5%) of the revenue of the Group.

MANUFACTURING BUSINESS

For the six months ended 30 June 2019, revenue of manufacturing business segment from external customers reduced by 10.4% from approximately HK\$21,635,000 for the six months ended 30 June 2018 to approximately HK\$19,379,000. This was mainly due to the decrease in demand from Hong Kong, the PRC and overseas markets.

Geographically, sales to Europe decreased by approximately 47.9% from approximately HK\$7,482,000 for the six months ended 30 June 2018 to approximately HK\$3,899,000 for the six months ended 30 June 2019. Sales to the US increased by approximately 54.4% from approximately HK\$6,369,000 for the six months ended 30 June 2018 to approximately HK\$9,833,000 for the six months ended 30 June 2019. Sales in Hong Kong decreased by approximately 16.0% from approximately HK\$1,763,000 for the six months ended 30 June 2018 to approximately HK\$1,481,000 for the six months ended 30 June 2019. Sales to the PRC decreased by approximately 40.5% from approximately HK\$1,324,000 for the six months ended 30 June 2018 to approximately HK\$788,000 for the six months ended 30 June 2019. Apart from the major markets, sales to other countries including Australia, Japan, Canada, India, Korea, Singapore and Malaysia, etc. decreased by approximately 28.1% from approximately HK\$4,697,000 for the six months ended 30 June 2018 to approximately HK\$3,378,000 for the six months ended 30 June 2019.

In terms of product category, sales of belts remained stable, which decreased slightly by approximately 0.9% to approximately HK\$17,861,000 for the six months ended 30 June 2019 (six months ended 30 June 2018: HK\$18,020,000) while sales of leather goods and other accessories decreased by approximately 58.0% to approximately HK\$1,518,000 for the six months ended 30 June 2019 (six months ended 30 June 2018: approximately HK\$3,615,000). In view of the weak demand and the operating environment, the Group strived to streamline human resources and reduce other overhead costs. As a result, the Group's manufacturing business segment recorded an operating loss of approximately HK\$1,239,000 for the six months ended 30 June 2019, representing an increase of approximately 28.9% over the corresponding period in 2018 (six months ended 30 June 2018: HK\$961,000).

RETAIL BUSINESS

The Group's revenue from its retail business decreased by approximately 42.8% from approximately HK\$12,991,000 for the six months ended 30 June 2018 to approximately HK\$7,437,000 for the six months ended 30 June 2019. The Group's in-house brand sales recorded a year-on-year decrease of approximately 45.3% and it accounted for approximately 89.5% of total retail sales for the six months ended 30 June 2019 as compared to approximately 93.3% during the six months ended 30 June 2018. The decrease was mainly due to keen competition from rivals and online sales and the weakening retail market in Hong Kong during the reporting period. The gross profit margin of the Group decreased slightly from approximately 51.0% for the six months ended 30 June 2018 to approximately 47.7% for the six months ended 30 June 2019, such decrease was mainly due to the increase in staff costs.

The overall shop rental to revenue ratio of approximately 33.0% for the six months ended 30 June 2019 remained relatively stable as compared with that of approximately 32.1% for six months ended 30 June 2018. The staff costs to revenue ratio increased to approximately 27.7% for the six months ended 30 June 2019 (six months ended 30 June 2018: 19.7%).

As a consequence of the above, the Group's retail business segment recorded an operating loss of approximately HK\$1,447,000 for the six months ended 30 June 2019 (six months ended 30 June 2018: approximately HK\$19,000). During the reporting period, the Group operated six AREA 0264 stores and one Teepee Leather workshop in Hong Kong (six months ended 30 June 2018: five AREA 0264 stores and one Teepee Leather workshop).

PROSPECT

The continuous escalating China-US trade tension is creating significant uncertainties to the global economy. The Group would maintain a cautiously optimistic view and closely monitor the developments in order to achieve the sustainability of the business.

Despite the relatively steady business environment of the PRC market, it is still influenced by the unfavorable currency fluctuation of Renminbi (“RMB”). The Group is more cautious about deployment of the resources and capital expenditure in the factory located in the PRC. The Group will focus on improving the production efficiency within the factory in order to achieve its optimal production level.

The recent turmoil of Hong Kong society also brings an intensified impact over the already stagnant retail market of Hong Kong. The Group will continue to promote the retail presence of the existing stores and enhance the shopping experience for the customers. On the other hand, the Group will continue to develop the e-commerce channel in order to tap into the fast-growing online market.

Meanwhile, the Group is modifying the product portfolio by formulating a more balanced approach to product combination of leather and non-leather products while also becoming more aware of the fashion trends when exploring new product categories such as nylon. These efforts aimed at diversifying our existing leather products which could bring additional merit to our valuable customers.

The Group will concurrently review its business strategic directions and operations in order to mitigate the loss and to maximize the shareholders’ value.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2019, the Group's cash and bank deposits were approximately HK\$14,966,000 as compared to approximately HK\$25,729,000 as at 31 December 2018.

The Group recorded total current assets of approximately HK\$44,743,000 as at 30 June 2019 (31 December 2018: HK\$51,140,000) and total current liabilities of approximately HK\$33,672,000 as at 30 June 2019 (31 December 2018: HK\$24,173,000). The net current assets of the Group was approximately HK\$11,071,000 as at 30 June 2019 (31 December 2018: HK\$26,967,000). The decrease of net current assets was attributable to the combined effect of the loss from operation and the current portion of lease liabilities recorded in accordance with the newly adopted HKFRS 16 which has become effective for reporting periods beginning on or after 1 January 2019. The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 1.33 times as at 30 June 2019 (31 December 2018: approximately 2.12 times).

The Group did not have any borrowings as at 30 June 2019 and 31 December 2018.

As at 30 June 2019, the gearing ratio of the Group, calculated by dividing the total liabilities by the total assets, was approximately 67.2% (31 December 2018: approximately 46.3%)

The Group recorded shareholders' equity of approximately HK\$18,243,000 as at 30 June 2019 (31 December 2018: approximately HK\$28,057,000). The reduction was mainly attributable to the loss incurred during the period.

TREASURY POLICY

The Group generally finances its operation with internally generated resources. Cash and bank deposits of the Group are mainly denominated in HK\$, United States dollars (“USD”) and RMB. Transactions of the Group are mainly denominated in HK\$, USD and RMB. As HK\$ is pegged to USD, the Group does not expect any significant movements in the USD/HK\$ exchange rate. In this regard, the Group does not expose to significant currency risk arising from USD. In addition, it is estimated that the Group’s exposure to foreign exchange fluctuation in RMB against HK\$ would have insignificant effects on profit or loss and other component of equity of the Group. Foreign exchange forward contract can be used to eliminate the currency risk exposure. The Group currently does not have a foreign currency hedging policy. However, the management of the Company will continue to monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

PLEGDED ASSETS

The Group did not have any pledged assets as at 30 June 2019 and 31 December 2018.

SIGNIFICANT INVESTMENTS

The Group did not conduct any significant investment during the reporting period.

MATERIAL ACQUISITION AND DISPOSAL

The Group did not conduct any significant acquisition or disposal of subsidiaries and associates during the reporting period.

HUMAN RESOURCES

As at 30 June 2019, the Group had approximately 38 employees (31 December 2018: 46) in Hong Kong and approximately 132 employees (31 December 2018: 144) in the PRC. The Group remunerated its employees mainly based on their individual performance.

DIVIDEND

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2019 and 2018.

COMMITMENTS

The Group had no contracted capital expenditure as at 30 June 2019 and 31 December 2018.

As at 31 December 2018, the future aggregate minimum lease payments under non-cancellable operating leases of various offices, retail outlets and production plants were approximately HK\$10,842,000. Upon the application of HKFRS 16 from 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the interim condensed consolidated statement of financial position and there will be no commitments for future minimum lease payments under operating leases.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2019, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have been taken under such provisions of the SFO), or as recorded in the register required to be kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by the Directors of Listed Issuers ("Model Code") contained in the Listing Rules.

SUBSTANTIAL SHAREHOLDERS OF INTEREST IN SHARES

As at 30 June 2019, other than the interests and short positions of the Directors or chief executives of the Company disclosed above, person or corporation who had interests in the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who was, directly or Indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

LONG POSITIONS

(a) Ordinary shares of HK\$0.01 each of the Company

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital
Zhao Jingfei	Interest of a controlled corporation	287,132,406 (Note 1)	75.03%
Waterfront Holding Group Co., Ltd.	Beneficial owner	287,132,406 (Note 1)	75.03%

Notes:

- 287,132,406 shares are held by Waterfront Holding Group Co., Ltd., a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Zhao Jingfei.

Save as disclosed above, as at 30 June 2019 the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTIONS

Pursuant to the written resolutions of all the shareholders of the Company passed on 18 February 2003, the Company adopted a share option scheme (the "Share Option Scheme").

The Share Option Scheme expired on 17 February 2013 and the Company has not adopted any new share option scheme thereafter.

There was no outstanding share option of the Company under the Share Option Scheme as at 1 January 2019 and 30 June 2019 respectively and no share option of the Company being granted, exercised, lapsed or cancelled during the period.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading “Directors’ and chief executives’ interests and short position in the shares, underlying shares and debentures” and “Share options” above, at no time during the period under review were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries, holding companies and fellow subsidiaries, a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

CHANGES IN INFORMATION OF DIRECTORS

Upon specific enquiry by the Company and following confirmations from the Directors, there was no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules subsequent to the date of the Company’s annual report published on 28 March 2019 or their appointment (to the extent the Director is appointed after 28 March 2019).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the six months ended 30 June 2019.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions (the “Code Provision(s)”) as set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Listing Rules during the six months ended 30 June 2019.

The Company will periodically review its corporate governance practices to ensure its continuous compliance with the CG Code.

PUBLIC FLOAT

Reference is made to the Company's announcement dated 18 June 2019 in relation to the close of mandatory unconditional cash offer (the "Offer") as disclosed therein. Upon the close of the Offer, on 18 June 2018, there were 95,571,594 shares in the Company (the "Shares") in the hands of the public (as defined under the Listing Rules), representing approximately 24.97% of the then entire issued share capital of the Company. The Company therefore could not fulfill the minimum public float requirement under Rule 8.08(1)(a) of the Listing Rules. The Stock Exchange granted a waiver from strict compliance with Rule 8.08(1)(a) of the Listing Rules for a period from 18 June 2019 up to and including 17 July 2019.

Reference is made to the Company's announcement dated 3 July 2019 in relation to the restoration of public float of the Company as disclosed therein. On 3 July 2019, Waterfront Holding Group Co., Ltd., the controlling shareholder of the Company, disposed of a total of 108,000 Shares, representing approximately 0.03% of the then entire issued share capital of the Company on the open market (the "Disposal") for the purpose of restoring the public float of the Company. Immediately following the Disposal and as at 3 July 2019, 95,679,594 Shares were held by the public, representing approximately 25.00% of the then entire issued share capital of the Company. Accordingly, the minimum public float of the Company has been restored and the Company is in compliance with Rule 8.08(1)(a) of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, the Directors have confirmed compliance with the required standard set out in the Model Code during the six months ended 30 June 2019.

The Company has also adopted a code of conduct regarding securities transactions by relevant employees on terms no less exacting than the required standard set out in the Model Code. All the relevant employees who, because of office or employment, are likely to be in possession of inside information in relation to the Company's securities has been requested to follow such code when dealing in the securities of the Company.

AUDIT COMMITTEE

As at 30 June 2019, the Audit Committee comprised three independent non-executive Directors, Mr. Chong Man Hung Jeffrey (Chairman), Mr. Wong Kwun Ho and Mr. Liang Jianhai. The Audit Committee has reviewed with Group's management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the unaudited condensed consolidated interim financial statements and the unaudited results of the Group for the six months ended 30 June 2019.

By order of the Board
Zhao Jingfei
Chairman

Hong Kong, 29 August 2019