

# NATIONAL ELECTRONICS HOLDINGS LIMITED

Stock Code: 213



INTERIM REPORT 2019

## 2019 INTERIM REPORT

The Board (the “Board”) of Directors (the “Directors”) of National Electronics Holdings Limited (the “Company”) would like to present the interim results of the Company and its subsidiaries (together, the “Group”) for the six months ended 30 September 2019.

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2019

	Notes	Six months ended 30 September	
		2019 (unaudited) HK\$'000	2018 (unaudited) HK\$'000
Revenue	3	382,738	474,242
Cost of sales		<u>(310,740)</u>	<u>(394,138)</u>
Gross profit		71,998	80,104
Other income	4	6,547	3,898
Other gains – net	5	20,443	2,615
Gain on disposal of investment properties		7,655	—
Increase in fair value of investment properties	11	15,256	125,390
Distribution costs		(4,260)	(5,410)
Administrative expenses		(90,250)	(84,234)
Finance costs	6	(58,494)	(42,124)
Share of result of an associate		(8)	(34)
Share of results of joint ventures		<u>92,014</u>	<u>(5,664)</u>
Profit before taxation	7	60,901	74,541
Income tax credit/(expense)	8	<u>2,323</u>	<u>(3,133)</u>
<b>Profit for the period</b>		<b><u>63,224</u></b>	<b><u>71,408</u></b>
<b>Earnings per share</b>	<b>9</b>		
Basic		<b><u>6.24 HK cents</u></b>	<b><u>6.96 HK cents</u></b>
Diluted		<b><u>6.24 HK cents</u></b>	<b><u>6.96 HK cents</u></b>

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

*For the six months ended 30 September 2019*

	<b>Six months ended 30 September</b>	
	<b>2019</b>	<b>2018</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Profit for the period</b>	<b>63,224</b>	<b>71,408</b>
Other comprehensive income/(expense)		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Exchange differences arising on translation of foreign operations	2,349	(12,198)
Fair value loss on other assets at fair value through other comprehensive income	(320)	(200)
Other comprehensive income/(expense) for the period	<u>2,029</u>	<u>(12,398)</u>
<b>Total comprehensive income for the period</b>	<b><u>65,253</u></b>	<b><u>59,010</u></b>
<b>Profit attributable to:</b>		
– Equity holders of the Company	63,229	71,408
– Non-controlling interests	(5)	—
	<u>63,224</u>	<u>71,408</u>
<b>Total comprehensive income/(expense) attributable to:</b>		
– Equity holders of the Company	65,258	59,010
– Non-controlling interests	(5)	—
	<u>65,253</u>	<u>59,010</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION***At 30 September 2019*

		<b>30 September 2019 (unaudited) HK\$'000</b>	<b>31 March 2019 (audited) HK\$'000</b>
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Investment properties	11	3,261,670	3,816,951
Property, plant and equipment		156,235	450,506
Prepaid lease payments		—	2,505
Right-of-use assets		290,324	—
Goodwill		1,270	1,270
Interest in an associate		7,381	7,390
Interests in joint ventures		458,237	366,223
Other assets at fair value through other comprehensive income		24,230	24,550
Debt instruments at amortised cost		3,091	3,173
Deferred tax assets		6,548	6,499
		<u>4,208,986</u>	<u>4,679,067</u>
<b>CURRENT ASSETS</b>			
Inventories		153,735	132,109
Prepaid lease payments		—	68
Financial assets at fair value through profit or loss		189,830	191,927
Inventory of unsold properties		6,064	6,033
Properties under development for sale		1,053,603	881,054
Bills receivables	12	—	338
Trade receivables, deposits and prepayments	13	97,199	140,424
Amount due from a joint venture		44,633	43,497
Tax recoverable		2,382	2,859
Bank balances and cash		1,299,979	811,798
		<u>2,847,425</u>	<u>2,210,107</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION** *(continued)**At 30 September 2019*

		<b>30 September 2019 (unaudited) HK\$'000</b>	<b>31 March 2019 (audited) HK\$'000</b>
	<i>Notes</i>		
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	14	101,529	88,183
Customers' deposits		223,691	220,921
Trade deposits, accrued expenses and other payables		160,922	147,502
Lease liabilities		23,146	—
Amount due to an associate		4,555	4,555
Tax payable		2,599	8,099
Derivative financial instruments		1,416	1,873
Obligations under finance leases		—	4,311
Bank loans		849,680	673,702
		<u>1,367,538</u>	<u>1,149,146</u>
<b>NET CURRENT ASSETS</b>		<u>1,479,887</u>	<u>1,060,961</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>5,688,873</u>	<u>5,740,028</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	15	101,079	101,659
Reserves		2,311,125	2,272,687
Equity attributable to owners of the Company		2,412,204	2,374,346
Non-controlling interests		4,353	—
<b>TOTAL EQUITY</b>		<u>2,416,557</u>	<u>2,374,346</u>
<b>NON-CURRENT LIABILITIES</b>			
Provision for long service payments		2,654	2,654
Obligations under finance leases		—	11,899
Bank loans		3,093,176	3,201,974
Lease liabilities		24,291	—
Deferred tax liabilities		152,195	149,155
		<u>3,272,316</u>	<u>3,365,682</u>
		<u>5,688,873</u>	<u>5,740,028</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
*For the six months ended 30 September 2019*

	Share capital HK\$ '000	Share premium HK\$ '000	Exchange reserve HK\$ '000	Revaluation reserve HK\$ '000	Fair value through other comprehensive income reserve HK\$ '000	Other reserve HK\$ '000	Contributed surplus HK\$ '000	Capital redemption reserve HK\$ '000	Retained profits HK\$ '000	Sub-total HK\$ '000	Non-controlling interests HK\$ '000	Total HK\$ '000
At 1 April 2018 (audited)	102,206	34,677	(64,983)	37,160	14,467	—	66,142	39,073	2,003,175	2,232,517	—	2,232,517
Profit for the period	—	—	—	—	—	—	—	—	71,408	71,408	—	71,408
Other comprehensive expense for the period	—	—	(12,198)	—	(200)	—	—	—	—	(12,398)	—	(12,398)
Total comprehensive income/(expense) for the period	—	—	(12,198)	—	(200)	—	—	—	71,408	59,010	—	59,010
Dividend recognised as distribution	—	—	—	—	—	—	—	—	(41,001)	(41,001)	—	(41,001)
Repurchase of own shares (414)	(414)	—	—	—	—	—	—	414	(4,771)	(4,771)	—	(4,771)
At 30 September 2018 (unaudited)	102,292	34,677	(77,181)	37,160	14,267	—	66,142	39,487	2,028,811	2,245,755	—	2,245,755
At 1 April 2019 (audited)	101,658	34,677	(84,505)	37,160	12,817	—	66,142	40,221	2,166,176	2,374,346	—	2,374,346
Profit/(Loss) for the period	—	—	—	—	—	—	—	—	63,229	63,229	(5)	63,224
Other comprehensive income/(expense) for the period	—	—	2,349	—	(320)	—	—	—	—	2,029	—	2,029
Total comprehensive income/(expense) for the period	—	—	2,349	—	(320)	—	—	—	63,229	65,258	(5)	65,253
Dividend recognised as distribution	—	—	—	—	—	—	—	—	(40,492)	(40,492)	—	(40,492)
Repurchase of own shares (579)	(579)	—	—	—	—	—	—	579	(7,050)	(7,050)	—	(7,050)
Disposal of partial interest in a subsidiary	—	—	—	—	—	20,142	—	—	—	20,142	4,358	24,500
At 30 September 2019 (unaudited)	101,079	34,677	(82,156)	37,160	12,497	20,142	66,142	40,800	2,181,863	2,412,204	4,353	2,416,557

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2019

	Six months ended 30 September	
	2019 (unaudited) HK\$'000	2018 (unaudited) HK\$'000
Net cash generated from operating activities	19,900	13,833
Net cash generated from/(used in) investing activities	421,367	(117,582)
Net cash generated from/(used in) financing activities	<u>34,614</u>	<u>(54,267)</u>
Net increase/(decrease) in cash and cash equivalents	475,881	(158,016)
Cash and cash equivalents at 1 April	811,798	864,810
Effect of foreign exchange rate changes	<u>12,300</u>	<u>1,708</u>
Cash and cash equivalents at 30 September	<u><u>1,299,979</u></u>	<u><u>708,502</u></u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<u><u>1,299,979</u></u>	<u><u>708,502</u></u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2019

### (1) BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standard (“HKAS”) 34 “*Interim Financial Reporting*” issued by the Hong Kong Institute of Certified Public Accountants (“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 and financial instruments, which are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2019 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2019.

#### **New and amended Hong Kong Financial Reporting Standards (“HKFRSs”) adopted by the Group**

A number of new or amended standards became applicable for the current reporting period. Those that are relevant to the Group’s condensed consolidated financial statements are as follows:

- HKFRS 16 “*Leases*” (“HKFRS 16”)

The impact of the adoption of these standards and the new accounting policy are disclosed below. The other standards did not have material impact on the Group’s accounting policies and did not require any adjustments.

The below explains the impact of adoption of HKFRS 16 on the Group’s condensed consolidated financial statements:

## (2) **PRINCIPAL ACCOUNTING POLICIES** *(continued)*

### **Impacts and changes in accounting policies of application of HKFRS 16**

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.

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***

##### *Allocation of consideration to components of a contract*

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

##### *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to 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 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.

## (2) PRINCIPAL ACCOUNTING POLICIES *(continued)*

### *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). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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 as a separate line item on the condensed consolidated statement of financial position.

### *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.

## (2) **PRINCIPAL ACCOUNTING POLICIES** *(continued)*

### *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.

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.

### *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.

## (2) **PRINCIPAL ACCOUNTING POLICIES** *(continued)*

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.

### *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 HKAS12 “*Income Taxes*” requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

### **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 HKFRS16 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 these 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 1 April 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.

## (2) PRINCIPAL ACCOUNTING POLICIES (continued)

### *As a lessee*

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 April 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:

- relied on the assessment of whether leases are onerous by applying HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets” as an alternative of impairment review;
- 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;
- excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group’s leases with extension and termination options.

	<b>At 1 April 2019</b> <i>HK\$’000</i>
Operating lease commitments disclosed as at 31 March 2019	49,421
Less: Discounted using the lessee’s incremental borrowing rate of at the date of initial application	(6,120)
Add: Finance lease liabilities recognised as at 31 March 2019	16,210
Less: Recognition exemption – short-term leases	(900)
	<hr/>
Lease liabilities upon application of HKFRS 16 as at 1 April 2019	<u>58,611</u>
Classified as:	
Current lease liabilities	22,602
Non-current lease liabilities	36,009
	<hr/>
	<u>58,611</u>

(2) **PRINCIPAL ACCOUNTING POLICIES** (continued)

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

	<b>Right-of-use Assets</b> <i>HK\$'000</i>
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	42,401
Reclassified from prepaid lease payments (note (i))	2,573
Reclassified from property, plant and equipment (note (ii))	<u>257,326</u>
	<u><u>302,300</u></u>
By class:	
Land and buildings	<u><u>302,300</u></u>

*Notes:*

- (i) Upfront payments for leasehold land in the People's Republic of China (the "PRC") were classified as prepaid land lease payments as at 31 March 2019. Upon application of HKFRS 16, the prepaid land lease payments amounting to approximately HK\$2,573,000 was reclassified to right-of-use assets. There were no ongoing payment obligations under the terms of the land lease, therefore, no lease liabilities were recognised at the date of initial application of HKFRS 16.
- (ii) Leasehold land in Hong Kong was classified as property, plant and equipment as at 31 March 2019. Upon application of HKFRS 16, the leasehold land in Hong Kong amounting to approximately HK\$257,326,000 was reclassified to right-of-use assets. There were no ongoing payment obligations under the terms of the land lease, therefore, no lease liabilities were recognised at the date of initial application of HKFRS 16.

(2) **PRINCIPAL ACCOUNTING POLICIES** *(continued)*

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

	<b>Carrying amounts previously reported at 31 March 2019</b>	<b>Adjustments</b>	<b>Carrying amounts under HKFRS 16 at 1 April 2019</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	450,506	(257,326)	193,180
Prepaid lease payments	2,505	(2,505)	—
Right-of-use assets	—	302,300	302,300
<b>Current assets</b>			
Prepaid lease payments	68	(68)	—
<b>Current liabilities</b>			
Lease liabilities	—	22,602	22,602
Obligations under finance leases	4,311	(4,311)	—
<b>Non-current liabilities</b>			
Lease liabilities	—	36,009	36,009
Obligations under finance leases	11,899	(11,899)	—

### (3) SEGMENT INFORMATION

The following is an analysis of the Group's revenue and result by reportable and operating segment:

#### Six months ended 30 September 2019 (unaudited)

	Manufacture of watches and trading of watch movements <i>HK\$'000</i>	Property development and investment <i>HK\$'000</i>	Hotel operation <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>REVENUE</b>				
External sales	<u>327,082</u>	<u>2,073</u>	<u>53,583</u>	<u>382,738</u>
<b>RESULT</b>				
Segment result	<u>6,469</u>	<u>7,705</u>	<u>25,048</u>	39,222
Bank interest income				4,332
Gain on disposal of investment properties				7,655
Unallocated other income				8,140
Unallocated other expenses				(31,960)
Finance costs				(58,494)
Share of result of an associate				(8)
Share of results of joint ventures				<u>92,014</u>
Profit before taxation				60,901
Income tax credit				<u>2,323</u>
Profit for the period				<u>63,224</u>

(3) **SEGMENT INFORMATION** (continued)

Six months ended 30 September 2018 (unaudited)

	Manufacture of watches and trading of watch movements <i>HK\$'000</i>	Property development and investment <i>HK\$'000</i>	Hotel operation <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>REVENUE</b>				
External sales	<u>408,344</u>	<u>2,556</u>	<u>63,342</u>	<u>474,242</u>
<b>RESULT</b>				
Segment result	<u>8,090</u>	<u>92,229</u>	<u>35,532</u>	135,851
Bank interest income				2,957
Unallocated other income				2,494
Unallocated other expenses				(18,939)
Finance costs				(42,124)
Share of result of an associate				(34)
Share of results of joint ventures				<u>(5,664)</u>
Profit before taxation				74,541
Income tax expense				<u>(3,133)</u>
Profit for the period				<u>71,408</u>

Segment result represents the profit earned by each segment without allocation of central administration costs, share of result of an associate, share of results of joint ventures, other income and finance costs. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

(3) **SEGMENT INFORMATION** *(continued)*

**Geographical information**

The Group's main operations are located in Hong Kong and other regions in the PRC, North America and Europe.

The following is an analysis of the Group's revenue from external customers based on geographical location of the customers:

	<b>Six months ended 30 September</b>	
	<b>2019</b>	<b>2018</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong and the PRC	372,686	459,351
North America	2,363	3,473
Europe	7,340	8,634
Others	349	2,784
	<u>382,738</u>	<u>474,242</u>

(4) **OTHER INCOME**

	<b>Six months ended 30 September</b>	
	<b>2019</b>	<b>2018</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank interest income	4,332	2,957
Interest income from debt instruments at amortised cost	–	224
Sundry income	2,215	717
	<u>6,547</u>	<u>3,898</u>

(5) OTHER GAINS — NET

	Six months ended 30 September	
	2019	2018
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Gain on disposal of property, plant and equipment	19,560	—
Gain on fair value changes of financial assets at fair value through profit or loss	883	2,615
	<u>20,443</u>	<u>2,615</u>

(6) FINANCE COSTS

	Six months ended 30 September	
	2019	2018
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Interest on:		
Bank loans and overdrafts	75,335	57,946
Lease liabilities	1,427	—
Obligations under finance leases	—	418
	<u>76,762</u>	<u>58,364</u>
Total borrowing costs	76,762	58,364
Less: Amounts capitalised to investment properties and properties under development for sale	(18,268)	(16,240)
	<u>58,494</u>	<u>42,124</u>

(7) **PROFIT BEFORE TAXATION**

	<b>Six months ended 30 September</b>	
	<b>2019</b>	<b>2018</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation has been arrived at after charging:		
Staff costs including directors' emoluments	54,194	55,904
Depreciation of property, plant and equipment	11,422	13,377
Depreciation of right-of-use assets	11,976	—
Amortisation of prepaid lease payments	—	151
Cost of inventories recognised as an expense	285,566	366,399
Minimum lease payments for operating leases in respect of land and buildings	—	6,108
Expenses relating to short-term leases	863	—
and after crediting/(charging):		
Gross rental income	55,656	65,898
Less: Outgoings	<u>(22,534)</u>	<u>(22,899)</u>
Net rental income	<u><u>33,122</u></u>	<u><u>42,999</u></u>

Depreciation of right-of-use assets and interest on lease liability in respect of staff quarters are approximately HK\$4,249,000 and HK\$379,000 respectively (six months ended 30 September 2018: minimum lease payments for operating leases in respect of staff quarters amounting to approximately HK\$4,500,000 are included in staff costs).

**(8) INCOME TAX CREDIT/(EXPENSE)**

	<b>Six months ended 30 September</b>	
	<b>2019</b>	<b>2018</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong Profits Tax		
– Over provision in prior years	5,000	–
Other jurisdictions		
– Current period	<u>(22)</u>	<u>(55)</u>
	4,978	(55)
Deferred tax		
– Current period	<u>(2,655)</u>	<u>(3,078)</u>
	<u>2,323</u>	<u>(3,133)</u>

Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 September 2018: 16.5%) on the estimated assessable profits for the period.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

**(9) EARNINGS PER SHARE**

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	<b>Six months ended 30 September</b>	
	<b>2019</b>	<b>2018</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Earnings</b>		
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	<u>63,224</u>	<u>71,408</u>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>1,013,300,011</u>	<u>1,025,725,454</u>

## (10) DIVIDENDS

	<b>Six months ended 30 September</b>	
	<b>2019</b>	<b>2018</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividends recognised as distribution during the period:		
2019 final dividend of 3.0 HK cents (2018: 3.0 HK cents) per share	30,369	30,751
2019 special cash dividend of 1.0 HK cent (2018: 1.0 HK cent) per share	10,123	10,250
	<u>40,492</u>	<u>41,001</u>

Subsequent to the end of the reporting period, the Directors proposed an interim dividend of 0.5 HK cent (2018: 0.5 HK cent) per share be paid to the shareholders of the Company whose names appear in the Register of Members on 12 December 2019.

## (11) INVESTMENT PROPERTIES

	<i>HK\$'000</i>
<b>FAIR VALUE</b>	
At 1 April 2018 (audited)	3,652,884
Additions	97,850
Increase in fair value recognised in profit or loss – unrealised	415,178
Transfer to properties under development for sale	(321,075)
Exchange realignment	(27,886)
	<u>3,816,951</u>
At 31 March 2019 (audited)	3,816,951
Additions	58,880
Increase in fair value recognised in profit or loss – unrealised	15,256
Disposal	(626,121)
Exchange realignment	(3,296)
	<u>3,261,670</u>
<b>At 30 September 2019 (unaudited)</b>	<b><u>3,261,670</u></b>

**(11) INVESTMENT PROPERTIES** *(continued)*

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

The fair values of the investment properties located in Hong Kong at 30 September 2019 have been arrived at on the basis of a valuation carried out on that date by Cushman & Wakefield Limited and Jones Lang LaSalle Limited, independent qualified professional valuers not connected with the Group.

The fair value of the investment property located in the PRC at 30 September 2019 has been arrived at on the basis of a valuation carried out on that date by Knight Frank Petty Limited, independent qualified professional valuer not connected with the Group.

The fair value of the Group's investment property located in the United Kingdom at 30 September 2019 has been arrived at on the basis of a valuation carried out by Savills (UK) Limited, independent qualified professional valuer not connected with the Group.

The fair value of the Group's investment property located in Japan at 30 September 2019 has been arrived at on the basis of a valuation carried by CBRE K.K., independent qualified professional valuer not connected with the Group.

The fair values of the completed investment properties located in Hong Kong and the United Kingdom and the land located in Japan were determined based on direct comparison approach, where the values are assessed by reference to the comparable properties in close proximity and adjusted for differences in key attributes such as property size and location.

The fair values of the investment properties under construction located in Hong Kong and the PRC were determined by using residual approach with the basis that the investment properties will be developed and completed in accordance with the latest development proposals and taken into account the construction costs that will be expended to complete the development to reflect the quality of the completed development.

## (12) BILLS RECEIVABLES

As at the end of the reporting period, there is no bills receivable (31 March 2019: As at the end of the reporting year, bills receivables of approximately HK\$338,000 are aged within 30 days).

## (13) TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS

The Group has a policy of allowing an average credit period of 30 days to its trade customers.

Included in trade receivables, deposits and prepayments are trade receivables net of allowance for credit losses of approximately HK\$29,282,000 (31 March 2019: HK\$59,031,000) with an ageing analysis as follows:

	<b>At 30 September 2019 (unaudited) HK\$'000</b>	<b>At 31 March 2019 (audited) HK\$'000</b>
Within 30 days	26,207	55,373
31 to 90 days	9	1
91 to 180 days	78	—
Over 180 days	2,988	3,657
	<u>29,282</u>	<u>59,031</u>

## (14) TRADE AND BILLS PAYABLES

The following is an ageing analysis of trade and bills payables presented based on the invoice date:

	<b>At 30 September 2019 (unaudited) HK\$'000</b>	<b>At 31 March 2019 (audited) HK\$'000</b>
Within 30 days	67,274	66,961
31 to 90 days	33,496	19,305
91 to 180 days	—	132
Over 180 days	759	1,785
	<u>101,529</u>	<u>88,183</u>

## (15) SHARE CAPITAL

	<b>Number of shares</b>	<b>Amount HK\$'000</b>
Ordinary shares of HK\$0.1 each		
Authorised:		
At 1 April 2018 (audited), 31 March 2019 (audited) and 30 September 2019 (unaudited)	<u>1,500,000,000</u>	<u>150,000</u>
Issued and fully paid:		
At 1 April 2018 (audited)	1,028,064,962	102,806
Cancelled on repurchase of shares	<u>(11,480,000)</u>	<u>(1,148)</u>
At 31 March 2019 (audited)	1,016,584,962	101,658
Cancelled on repurchase of shares	<u>(5,790,000)</u>	<u>(579)</u>
At 30 September 2019 (unaudited)	<u>1,010,794,962</u>	<u>101,079</u>

## (16) CAPITAL COMMITMENTS

	<b>At 30 September 2019 (unaudited) HK\$'000</b>	<b>At 31 March 2019 (audited) HK\$'000</b>
Contracted for but not provided:		
Construction and acquisition of properties	<u>21,985</u>	<u>21,432</u>

## (17) RELATED PARTY TRANSACTIONS

(1) The Group's balances with related parties are as follows:

	<b>At 30 September 2019 (unaudited) HK\$'000</b>	<b>At 31 March 2019 (audited) HK\$'000</b>
Loan to a joint venture	1,154	51,154
Advance to a joint venture	44,633	43,497
Advance from an associate	<u>4,555</u>	<u>4,555</u>

(2) The compensation to key management personnel during the period was approximately HK\$23,393,000 (six months ended 30 September 2018: HK\$21,353,000).

## (18) FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

### (i) *Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis*

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques and inputs used), as well as the level of fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets/ Financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	30/09/2019 (unaudited) HK\$'000	31/03/2019 (audited) HK\$'000			
Listed equity securities classified as financial assets at fair value through profit or loss	25,678	19,091	Level 1	Quoted bid prices in an active market	N/A
Listed debt securities classified as financial assets at fair value through profit or loss	5,903	6,224	Level 1	Quoted bid prices in an active market	N/A
Listed fund investment classified as financial assets at fair value through profit or loss	12,457	12,747	Level 1	Quoted bid prices in an active market	N/A
Unlisted equity securities classified as financial assets at fair value through profit or loss	23,523	23,550	Level 3	Recent transaction price	Recent transaction price
Unlisted fund investment classified as financial assets at fair value through profit or loss	110,419	110,687	Level 3	Net asset value <sup>(note)</sup>	Net asset value <sup>(note)</sup>

**(18) FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS** (continued)

**(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis** (continued)

Financial assets/ Financial liabilities	Fair value as at 30/09/2019 (unaudited) HK\$'000	Fair value as at 31/03/2019 (audited) HK\$'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Unlisted debt securities classified as financial assets at fair value through profit or loss	11,850	19,628	Level 2	Quoted price provided by financial institutions	N/A
Interest rate swaps classified as derivative financial instruments	Liabilities- 1,416	Liabilities- 1,873	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties	N/A

*Note:* The net asset value is mainly attributable from an underlying unlisted investment with its fair value is determined with reference to the recent transaction price of the investment.

There were no transfers between Level 1, 2 and 3 during the period.

**(ii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis**

The Directors estimate the fair value of its financial assets and financial liabilities measured at amortised cost using the discounted cash flow analysis.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

(18) FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

(iii) Reconciliation of Level 3 fair value measurements

	Unlisted equity securities HK\$'000	Unlisted fund investments HK\$'000	Total HK\$'000
At 1 April 2018 (audited)	23,400	93,261	116,661
Total gains in profit or loss – unrealised	<u>150</u>	<u>17,426</u>	<u>17,576</u>
At 31 March 2019 and 1 April 2019 (audited)	23,550	110,687	134,237
Total losses in profit or loss – unrealised	<u>(27)</u>	<u>(268)</u>	<u>(295)</u>
At 30 September 2019 (unaudited)	<u>23,523</u>	<u>110,419</u>	<u>133,942</u>

**INTERIM DIVIDEND**

The Directors resolved to declare an interim dividend of 0.5 HK cent (2018: 0.5 HK cent) per share.

**BUSINESS REVIEW**

The Group's turnover for the six months ended 30 September 2019 was approximately HK\$382,738,000 as compared with HK\$474,242,000 over the same period last year. Net profit for the six months ended 30 September 2019 was approximately HK\$63,224,000 as compared with approximately HK\$71,408,000 over the same period in 2018.

During the period under review, the watch manufacturing and watch component trading division recorded a decrease in turnover and profit. At the same time, the Group's hotel operation's result was adversely affected by the unprecedented social unrest in Hong Kong.

On 2 August 2019, the Group disposed of two houses at its luxurious residential development 45 Tai Tam Road, Hong Kong, a joint venture project with BPE Asia Real Estate Fund L.P. The result was satisfactory.

## **PROSPECTS**

The prolonged length and scale of the trade war between the United States and the PRC will continue to affect and challenge the Group's watch and watch component business for the coming year.

With regards to the Group's boutique hotel business, the Group is hopeful that the social unrest in Hong Kong will subside in the near term so that occupancy and rates may gradually return to its normal level.

The excavation and foundation work of the Group's luxurious residential project at 3 South Bay Close, Repulse Bay is scheduled to commence at the end of 2019.

Regarding the Group's multi-phased mixed-use development at 88 Queen Street East, Toronto, Canada, the Group is planning to proceed with its sales and marketing launch in the first quarter of 2020.

## **FINANCIAL REVIEW**

### **Liquidity and financial resources**

At 30 September 2019, the Group's total borrowings were approximately HK\$3,943 million. The maturity profile spreads over a period of 20 years, with approximately HK\$850 million repayable within one year, approximately HK\$2,907 million within two to five years and approximately HK\$186 million beyond five years.

At 30 September 2019, the Group's gearing ratio was 1.28 (31 March 2019: 1.35) which is calculated based on the Group's long-term bank borrowings of approximately HK\$3,093 million and shareholders' funds of approximately HK\$2,412 million.

At 30 September 2019, the Group's total bank balances and cash was approximately HK\$1,300 million (31 March 2019: HK\$812 million).

Similar to last period, the Group has maintained a reasonable level of cash resources and stand-by credit facilities to provide adequate liquid funds to finance its commitments and working capital requirements.

## **Treasury Policies**

At 30 September 2019, 82% of the Group's borrowings was in HKD, 14% in CAD, 2% in JPY, 1% in USD and 1% in GBP.

At 30 September 2019, 55% of the Group's bank balances and cash was in CAD, 26% in HKD, 9% in USD, 6% in JPY, 3% in RMB and 1% in GBP.

All the Group's borrowings are variable-rate borrowings. The Group will carefully monitor its foreign exchange and interest rate exposures and utilise financial instruments such as forward contracts and interest rate swaps as necessary.

## **Future plans for material investments**

The Group currently has no other plans for material investments. All investments, if any, will be funded by bank borrowings and the internal resources of the Group.

## **Charges on assets**

At 30 September 2019, certain properties and bank deposits of the Group of approximately HK\$4,586 million (31 March 2019: HK\$5,034 million) were pledged to secure banking facilities for the Group.

## **Employees**

At 30 September 2019, the Group employed approximately 300 employees in Hong Kong, the PRC and other overseas countries. The staff costs recognised in profit or loss for the period including directors' emoluments amounted to approximately HK\$54 million (six months ended 30 September 2018: HK\$56 million). Remuneration is determined by reference to market terms as well as the qualifications and experiences of the staff concerned. Salaries are reviewed annually and discretionary bonuses may be paid depending on individual performance and the profitability of the Group.

## **DIRECTORS' INTERESTS IN SHARES**

At 30 September 2019, the interests of the Directors, chief executives and their associates in the shares and debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by the Directors of Listed Companies, were as follows:

## DIRECTORS' INTERESTS IN SHARES (continued)

### Ordinary shares of HK\$0.10 each

Name of director	Capacity	Personal interests	Corporate interests	Other interests	Total interests	Percentage of the issued share capital of the Company
Mr. Jimmy Lee Yuen Ching	Chairman	—	—	536,514,894 (notes a, b)	536,514,894	53.079%
Mr. Loewe Lee Bon Chi	Managing Director	16,720,000	—	549,514,894 (notes a, c)	566,234,894	56.019%
Mr. James Lee Yuen Kui	Managing Director	6,534	—	—	6,534	0.001%
Mr. Ricky Wai Kwong Yuen	Director	—	40,994,543 (note d)	—	40,994,543	4.056%
Dr. Samson Sun, M.B.E., J.P.	Director	—	5,817,864 (note e)	—	5,817,864	0.576%
Mr. William Chan Chak Cheung	Director	330,000	—	—	330,000	0.033%

#### Notes:

- (a) 516,514,894 shares are part of the property of two discretionary trusts of which Mr. Jimmy Lee Yuen Ching and his family members and Mr. Loewe Lee Bon Chi's family members are named beneficiaries.
- (b) 20,000,000 shares are held by Mr. Jimmy Lee Yuen Ching's family member.
- (c) 33,000,000 shares are held by Mr. Loewe Lee Bon Chi's family member.
- (d) These 40,994,543 shares are part of the property of two discretionary trusts of which Mr. Ricky Wai Kwong Yuen is named beneficiary.
- (e) These 5,817,864 shares are held by a company which is controlled by Dr. Samson Sun, M.B.E., J.P. indirectly. Therefore, Dr. Samson Sun, M.B.E., J.P. is deemed to be interested in the shares held by that company under the SFO.
- (f) The percentage was calculated based on a total of 1,010,794,962 shares in issue as at 30 September 2019.

Saved as disclosed above, at 30 September 2019, none of the directors or chief executive or any of their associates had any interests, or short positions in any shares, underlying shares or debentures of the Company or its associated corporations as defined in the SFO.

## SUBSTANTIAL SHAREHOLDERS

Other than the interests of certain directors disclosed under the heading “Directors’ Interests in Shares” above, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO discloses no other person as having a notifiable interest or short position in the issued share capital of the Company as at 30 September 2019.

## PURCHASE, SALE OR REDEMPTION OF SHARES

Save for the Company’s purchases of its own shares on the Stock Exchange as disclosed below, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s securities during the six months ended 30 September 2019.

Month of repurchase	Number of ordinary shares of HK\$0.1 each	Price per share		Aggregate consideration paid
		Highest	Lowest	(including expenses)
		HK\$	HK\$	HK\$
April 2019	292,000	1.20	1.18	348,845
May 2019	2,684,000	1.23	1.19	3,251,065
June 2019	456,000	1.19	1.19	544,581
July 2019	864,000	1.23	1.21	1,066,299
August 2019	1,494,000	1.23	1.20	1,839,603
	<u>5,790,000</u>			<u>7,050,393</u>

## CORPORATE GOVERNANCE

The Company had complied throughout the six months ended 30 September 2019 with the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except for the CG Code A.4.1 and A.4.2.

Pursuant to the CG Code A.4.1, Non-executive Directors should be appointed for a specific term, subject to re-election. The Non-executive Directors of the Company were not appointed for a specific term, but are subject to retirement by rotation and re-election at the Company’s Annual General Meetings in accordance with the Company’s Bye-law 99. The Company considers that sufficient measures have been taken to ensure that the Company’s corporate governance practices are no less exacting than those in the CG Code A.4.1.

## **CORPORATE GOVERNANCE** *(continued)*

Pursuant to the CG Code A.4.2, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. In the opinion of the Board, the Chairman and Managing Director play a pivotal role in charting of corporate strategies and direction of the Group and should not be subject to retirement by rotation in consideration of the stability and continuity development of the Group. As such, the Board believes that exempting the Chairman and Managing Director from retiring from office by rotation at Annual General Meeting in accordance with the Bye-law 99 of the Company is in the best interest of the Group.

### **AUDIT AND RISK MANAGEMENT COMMITTEE**

The Company has established an Audit and Risk Management Committee and its members comprise Dr. Samson Sun, M.B.E., J.P., Mr. Chan Chak Cheung, William and Mr. Chan Kwok Wai who are all Independent Non-executive Directors. The Audit and Risk Management Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed the auditing, internal control, risk management and financial reporting matters. The interim results for the six months ended 30 September 2019, which have not been audited, have been reviewed by the Audit and Risk Management Committee.

### **MODEL CODE**

The Company has adopted a code of conduct regarding the Directors' securities transactions ("Model Code") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiries to all Directors who have confirmed that, during the period under review, they had complied with the required standard set out in the Model Code.

By Order of the Board  
**LEE YUEN CHING JIMMY**  
*Chairman*

Hong Kong, 25 November 2019

As at the date of this report, the Executive Directors of the Company are Mr. Lee Yuen Ching, Jimmy, Mr. Lee Bon Chi, Loewe, Mr. Lee Yuen Kui, James, Mr. Lee Yuen Cheor, Edward and Mr. Wai Kwong Yuen Ricky; the Non-executive Director is Ms. Lee Yuen Yu, Dorathy and the Independent Non-executive Directors are Dr. Samson Sun, M.B.E., J.P., Mr. Chan Chak Cheung, William and Mr. Chan Kwok Wai.