CITYCHAMP
WATCH & JEWELLERY GROUP LIMITED
冠城鐘錶珠寶集團有限公司

(incorporated in the Cayman Islands with limited liability)
Stock Code : 256

SEIZE THE OPPORTUNITY BUILD YOUR WEALTH

Interim Report
2020

CORPORATE INFORMATION

Board of Directors

EXECUTIVE DIRECTORS
HON Kwok Lung BBS *(Chairman)*
SHANG Jianguang *(Chief Executive Officer)*
SHI Tao
LAM Toi Man
BI Bo
SIT Lai Hei
HON Hau Wong
Teguh HALIM

INDEPENDENT NON-EXECUTIVE DIRECTORS
KWONG Chun Wai, Michael
ZHANG Bin

Audit Committee

KWONG Chun Wai, Michael
ZHANG Bin

Remuneration Committee

HON Kwok Lung
SHANG Jianguang
KWONG Chun Wai, Michael
ZHANG Bin

Nomination Committee

HON Kwok Lung *(Committee Chairman)*
SHANG Jianguang
KWONG Chun Wai, Michael
ZHANG Bin

Risk Management Committee

SIT Lai Hei *(Committee Chairman)*
SHI Tao
LAM Toi Man
BI Bo

CFO & Company Secretary

FONG Chi Wah

Auditor

BDO Limited

Principal Bankers

Hang Seng Bank Limited
Bank of China (Hong Kong) Limited
China CITIC Bank International Limited
Industrial Bank Co., Ltd. Hong Kong Branch
Luso International Banking Ltd.
Bank of Communications Co., Ltd.
Hong Kong Branch
Korea Development Bank Qingdao Branch

Hong Kong Branch Share Registrar

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

Registered Office

P.O. Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

Principal Office

Units 1902–04, Level 19
International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

Websites

www.irasia.com/listco/hk/citychamp
www.citychampwj.com

Our Strategy

The Group takes a long-term perspective in formulating our corporate strategy. We engage capital and people where we identify opportunities to generate returns which exceed our cost of capital over the long term and invest in the existing and new businesses. It is our intention to remain a conglomerate with different businesses capable of generating sustainable long-term growth.

Financial Highlights

	Six months ended 30 June		
	2020	2019	Variation
	HK$'000	HK$'000	%
Total revenue	**796,114**	1,422,324	-44.0
Operating expenses	**588,578**	782,694	-24.8
Gross profit generated from non-banking and financial businesses	**306,976**	688,365	-55.4
Gross profit generated from banking and financial businesses	**199,111**	234,401	-15.1
EBITDA	**30,566**	258,479	-88.2
(Loss)/Profit before tax	**(86,094)**	149,873	N/A
Net (Loss)/Profit after tax	**(92,475)**	109,989	N/A
(Loss)/Earnings per share attributable to owners of the Company for the period			
– Basic	**(HK2.32 cents)**	HK2.04 cents	N/A
– Diluted	**(HK2.32 cents)**	HK2.04 cents	N/A

	30 June 2020	31 December 2019	Variation
	HK$'000	HK$'000	%
Total assets	**18,322,906**	19,597,081	-6.5
Total liabilities	**13,897,638**	14,936,192	-7.0
Total equity	**4,425,268**	4,660,889	-5.1

Operating Results

For the six months ended 30 June 2020, the Group recorded total revenue of approximately HK$796,114,000 (six months ended 30 June 2019: HK$1,422,324,000), a decrease of HK$626,210,000 or 44.0% over the corresponding period last year.

Operating expenses (including selling and distribution expenses and administrative expenses) for the six months ended 30 June 2020 was approximately HK$588,578,000 (six months ended 30 June 2019: HK$782,694,000), a decrease of HK$194,116,000 or 24.8% over the corresponding period last year.

Operating Results (Continued)

Gross profit generated from non-banking and financial businesses for the six months ended 30 June 2020 was approximately HK$306,976,000 (six months ended 30 June 2019: HK$688,365,000), a decrease of HK$381,389,000 or 55.4% over the corresponding period last year.

Gross profit generated from banking and financial businesses for the six months ended 30 June 2020 was approximately HK$199,111,000 (six months ended 30 June 2019: HK$234,401,000), a decrease of HK$35,290,000 or 15.1% over the corresponding period last year.

EBITDA for the six months ended 30 June 2020 was approximately HK$30,566,000 (six months ended 30 June 2019: HK$258,479,000), a decrease of HK$227,913,000 or 88.2% over the corresponding period last year.

Net loss after tax for the six months ended 30 June 2020 was approximately HK$92,475,000 (six months ended 30 June 2019: net profit after tax HK$109,989,000).

Performance

The first half year performance was delivered against an exceptionally challenging environment as both the continued trade tensions between the US and Mainland China and the Coronavirus Disease 2019 pandemic ("COVID-19"), which have significantly impacted the global economy particularly the Mainland Chinese economy.

Notwithstanding the challenging environment, we have formulated certain actions to deal with the issues arosed for each of the key business. Our Group comprises three key divisions – watches and timepieces businesses, banking and financial businesses, and various investment businesses. These divisions are described in more details in the following review.

I. Watches and timepieces businesses
   - I.A – local proprietary brands
   - I.B – foreign proprietary brands
   - I.C – non-proprietary brands
   - I.D – others

II. Banking and financial businesses
   - II.A – Bendura Bank AG
   - II.B – Shun Heng Finance Holding (Hong Kong) Limited

III. Various investment businesses
   - III.A – listed equity investment
   - III.B – property investment
   - III.C – other marketable securities

Performance (Continued)

I.A LOCAL PROPRIETARY BRANDS

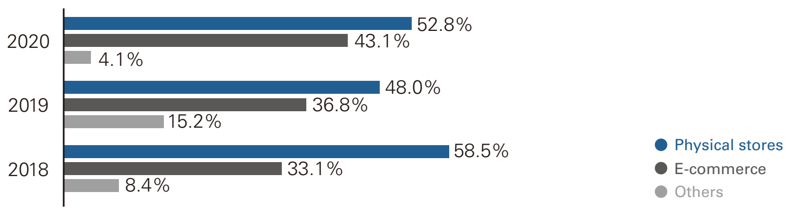
Zhuhai Rossini Watch Industry Limited

For the six months ended 30 June 2020, Zhuhai Rossini Watch Industry Limited ("Rossini"), a 91% subsidiary of the Group, recorded revenue of HK$268,065,000, a decrease of HK$276,654,000 or 50.8% from HK$544,719,000 for the same period last year. Net profit after tax attributable to owners of the Company for the period under review was HK$27,350,000, representing a decrease of HK$109,294,000 or 80.0% from HK$136,644,000 in the same period last year.

In the past few years, the traditional retail model of watch industry has been challenged by the ever-growing e-commerce in Mainland China. The outbreak of COVID-19 in the first half of 2020 further enlarged the existing challenges. Since physical store is still one of the major source of revenue, it eventually brings an adverse effect to overall performance of Rossini. In order to minimize the impact from COVID-19, various measures such as cost control, sales promotion and adjustment to sales strategy for the physical stores had been taken by Rossini.

Proportions to Rossini's total revenue by different types of sales

For the six months ended 30 June



Note: Other types of sales mainly include industrial tourism and group purchase.

The COVID-19 reduces the overall watch demand. As a result, e-commerce sales for the six months ended 30 June 2020 decreased to HK$115,456,000 from HK$200,309,000 for the same period last year, representing a decrease of approximately 42.4%. However, the proportion of revenue from e-commerce keeps increasing over the years. As one of the strategies to compensate for the reduction of revenue from physical distribution, Rossini has developed intensively on e-commerce, and a positive outcome has been achieved.

Performance (Continued)

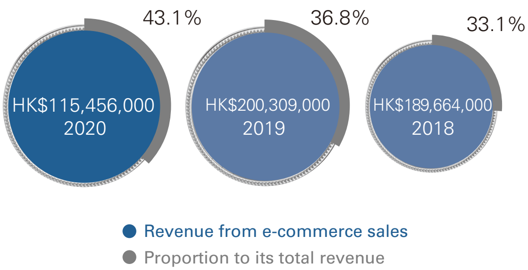
I.A LOCAL PROPRIETARY BRANDS (Continued)

Zhuhai Rossini Watch Industry Limited (Continued)

To facilitate the currently developing e-commerce business, Rossini kept expanding its territory for occupying more market shares by opening online distributors on the leading e-commerce platforms including Taobao, Tmall and JD. In addition, the shopping preferences of the Chinese consumers, especially those of the young generation, are influenced by key opinion leaders (KOL), who spread their views on social media live streaming apps. Rossini's e-commerce team seized the current trend and as a result e-commerce livestreaming has taken off. Rossini was actively exploring new opportunities on popular social media platforms including Xiaohongshu, Kuaishou and Tik Tok to strengthen its brand awareness.

Rossini's revenue earned from e-commerce sales

For the six months ended 30 June



Tourism industry is one of the most impacted industries under the COVID-19 and hence Rossini's revenue from industrial tourism is also inevitably affected. The tourist number for the six months ended 30 June 2020 was approximately 10,000 (six months ended 30 June 2019: 230,000). Revenue from which was approximately HK$1,795,000, representing a decrease of approximately 96% over the corresponding period of the last year.

Performance (Continued)

I.A LOCAL PROPRIETARY BRANDS (Continued)

EBOHR Group

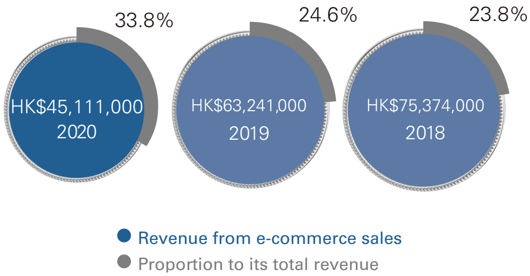
EBOHR Group is composed of EB Brand Limited, EBOHR Luxuries International Limited ("EBOHR") and its subsidiaries (the "EBOHR Group").

Revenue of EBOHR Group for the six months ended 30 June 2020 was HK$133,564,000, a decrease of HK$124,068,000 or 48.2% from HK$257,632,000 for the same period last year. Net loss after tax for the six months ended 30 June 2020 was HK$16,498,000, compared with net profit after tax of HK$2,903,000 for the same period last year.

The loss was primarily attributable to two reasons. First, the revenue dropped significantly mainly due to the COVID-19; it intensified the declining trend of revenue from physical stores, which dropped approximately 53% compared to the same period in 2019. Second, revenue from e-commerce dropped approximately 28.7% compared to the same period last year, with the high online selling expenses, the profits margins remained low. EBOHR had imposed stringent control, including reduction of advertising expense and proper management on inventory turnover. However, operating cost of e-commerce remained high as it is necessary for maintaining the brand awareness in the competitive level.

EBOHR's revenue earned from e-commerce sales

For the six months ended 30 June



To deal with the challenge from the COVID-19, EBOHR has taken various measures including proper prevention on virus infection and readjustment of the business strategy, aiming to maximize both labour productivity and profits. EBOHR also utilized the popular social media to enhance the brand exposure in the market. In the month of June 2020, sales revenue starts recovering gradually. Considering that the COVID-19 is generally under control in Mainland China, the overall performance will turn positive in the remaining months of the year.

Performance (Continued)

I.A LOCAL PROPRIETARY BRANDS (Continued)

EBOHR Group (Continued)

Mainland China is our home and remains the backbone of our business. Rossini and EBOHR Group continue to be the major sources of revenue and collectively account for more than 67% of the total revenue from non-banking and financial businesses of the Group (six months ended 30 June 2019: 68%).

The rapid growth of digital economy is changing consumer behavior, and Rossini and EBOHR are aggressively implementing strategies to enhance e-commerce. It is believed that the proportion of the e-commerce sales to both companies' revenue and profit will increase in next few years.

I.B FOREIGN PROPRIETARY BRANDS

Corum | Eterna | Dreyfuss Group | Ernest Borel

Ernest Borel Holdings Limited

The Group held 64.08% equity interest in Ernest Borel Holdings Limited ("Ernest Borel", together with its subsidiaries, the "Ernest Borel Group") as at 30 June 2020. Ernest Borel Group recorded revenue and net loss after tax attributable to owners of the Company for the six months ended 30 June 2020 of HK$36,627,000 (six months ended 30 June 2019: HK$55,734,000) and HK$7,839,000 (six months ended 30 June 2019: HK$23,049,000), respectively.

Mainland China remains as the core market of the Ernest Borel Group. Revenue from Mainland China was approximately HK$34,674,000 for the six months ended 30 June 2020, accounting for approximately 94.7% of its total revenue.

The extensive distribution network of the Ernest Borel Group covers retail markets in Mainland China, Hong Kong, Macau and South Asian countries. As at 30 June 2020, Ernest Borel Group had 775 POS (six months ended 30 June 2019: 808 POS), comprising 635 POS in Mainland China and 125 POS in Hong Kong, Macau and South Asian countries.

Performance (Continued)

I.B FOREIGN PROPRIETARY BRANDS (Continued)

Ernest Borel Holdings Limited (Continued)

During the first half of 2020, continuous social disturbance in Hong Kong and the global outbreak of the COVID-19 significantly reduced the consumer sentiment in Hong Kong and Mainland China, hence affecting the revenue. In order to improve the Brand awareness and sales performance, Ernest Borel was actively developing e-commerce in both Mainland China and Hong Kong. During the first half of 2020, Ernest Borel put a lot of efforts on promotion through social media like Weixin, Weibo and various live-streaming channel. With promotion of exclusive products on the e-commerce platforms, the revenue from e-commerce is further enhanced. In addition, in order to improve the performance from physical stores, Ernest Borel kept seeking new POS with potential growth and actively reviewed the performance of existing POS. Furthermore, Ernest Borel has imposed more stringent control on resources allocation and frequent monitoring on inventories, which helps to reduce cost and maximise the profits.

Other Foreign Proprietary Brands

Collectively, Corum, Eterna and The Dreyfuss Group Limited (the "Dreyfuss Group") contributed revenue and net loss after tax for the period ended 30 June 2020 of HK$67,190,000 (six months ended 30 June 2019: HK$184,499,000) and HK$51,746,000 (six months ended 30 June 2019: HK$27,431,000), respectively.

Switzerland's watchmaking industry has been crippled by the COVID-19 from the beginning of 2020. The lockdowns imposed on a large part of the world's population, the closure of stores and the inability to travel have put the brakes on sales of "Swiss Made" watches in markets around the world. As a result, revenue from Corum dropped significantly due to the market shrinking. Under the challenging environment, Corum disclosed a new positioning and marketing strategy in early 2020, which received a positive feedback from customers and other stakeholders. The main objective of this strategy is to enhance the revenue and to reinforce the image of the brand. The positive reaction from the stakeholders revealed that Corum correctly addressed its positioning and marketing strategies. Corum also planned to explore the Chinese market in the second half of 2020 to enhance the sales performance.

The COVID-19 also affected both activity and revenue of Eterna. With the virus, the activity of Eterna from April to June 2020 was around 35%, meaning that only urgent and vital needs to run the business were fulfilled. During first half of 2020, Eterna did not produce new watch series and mainly focused on clearing the inventories. It allows Eterna to reach a sustainable way of self-financing. Generally, Eterna adopts a product strategy that focusing on easily marketable products, and making use of the components of existing inventory so as to minimise the cost.

Performance (Continued)

I.B FOREIGN PROPRIETARY BRANDS (Continued)

Other Foreign Proprietary Brands (Continued)

As Eterna Movement still relies heavily on the intercompany orders from Corum and Eterna, the overall reduction of demand from both companies further reduced the revenue of Eterna Movement. Eterna Movement is actively seeking third party customers to reduce the reliance from the intercompany orders. At the same time, cost reduction continues to be a main strategy of Eterna Movement in maximizing the profits.

As UK is the Dreyfuss Group's largest single market, representing approximately 79% of its total turnover for the six months ended 30 June 2020. The economic and political Brexit-related factors affecting its marketplace also heavily influenced the Dreyfuss Group's overall performance. With the COVID-19 in 2020, the UK watch market continues to be very soft both in terms of sale-in and sale-through and as a result, sales in the UK market has continued to decline in the first half of 2020. The key strategy for the UK market is to increase the profitability of trade with the major customers, by providing desirable watches at compelling price points that deliver the targeted profitability.

With the exception of Europe, the international scene has largely mirrored the sales impact of COVID-19 seen in the UK. With a primary focus on Germany, the European team continues to achieve sales by planting and developing distribution in other countries, including in Scandinavia, Central & Eastern Europe. The MENA region (Middle East and North Africa) had been restructured to focus on cash-in-advance sales and actively developing good relationship with profitable customers.

Backed by our competitive strengths and deep understanding of the needs of our customers, we will redeploy our resources to realize gains in efficiency and synergy and will build on the good progress we have made to provide long-term value.

I.C NON-PROPRIETARY BRANDS

Currently, the Group held four distribution companies. Collectively, distribution companies contributed revenue and net loss after tax attributable to owners of the Company for the period ended 30 June 2020 of HK$76,233,000 (six months ended 30 June 2019: HK$125,449,000) and HK$1,628,000 (six months ended 30 June 2019: net profit after tax HK$2,451,000) respectively.

I.D OTHERS

Other non-major subsidiaries of the Group also engaged in other non-major categories of watch and timepieces businesses, which collectively contributed revenue and net loss after tax for the period ended 30 June 2020 of HK$11,268,000 (six months ended 30 June 2019: HK$14,744,000) and HK$9,566,000 (six months ended 30 June 2019: HK$4,192,000) respectively.

Performance (Continued)

II.A BENDURA BANK AG

Bendura Bank AG ("Bendura Bank" or the "Bank") aims to accompany its clients from one generation to the next and to provide long-term wealth creation and protection. The range of private banking is comprehensive, focusing on, among others, following areas:

(1) Asset management and investment advice;

(2) Transaction banking; and

(3) Security issuance and investment funds.

Revenue of the Bank for the period ended 30 June 2020 was HK$195,194,000, a decrease of HK$38,247,000 or 16.4% from HK$233,441,000 over the same period last year. Net profit after tax attributable to owners of the Company for the period ended 30 June 2020 was HK$12,379,000, representing a decrease of HK$54,129,000 or 81.4% from HK$66,508,000 for the same period last year.

While the COVID-19 adversely affected the revenue due to limited operation of the Bank and limited communication with the clients, lower interest rates reduced the net interest margins. Specifically, the substantial decline in the net profit after tax was attributable to (1) significantly lower net interest income, (2) lower net commission and fee income, and (3) most significantly, an impairment loss on financial assets.

In interest-related business, the Bank continued to face negative interest rates in Swiss Frans and Euros. Interest income from interest and dividends decreased significantly by CHF 2.83 million or 23% compared to the same period last year. Lower interest rates shrank the Banks' net interest margins. Particularly, Fed's latest rate cuts to insulate the economy against coronavirus fallout did hurt the Bank's earnings very badly as a large portion of the Banks' assets was denominated in USD. Moreover, the Bank's liquidity in USD significantly decreased during the first six months in 2020 since clients' deposits decreased.

Net commission and fee income of the Bank decreased from CHF 14.04 million to CHF 12.48 million, mainly due to reduced payment operation services.

Income from financial transactions amounted to CHF 2.57 million, roughly CHF 1.07 million below the same period last year. This decline was due to lower income from foreign exchange transactions for clients and treasury activities.

Performance (Continued)

II.A BENDURA BANK AG (Continued)

Operating expenses amounted to CHF 17.55 million in the first half of 2020 and hence increased by 3% compared to the same period last year. Although there was higher personnel costs due to increased headcount, the 3% reduction of general expenses compensate part of the additional personnel cost. As a result, only a low level of increasing the operating cost.

There was an impairment in total of CHF 3.07 million related to a note issued by Wirecard AG, a company listed in Frankfurt Stock Exchange which the Bank originally has invested EUR 3.5 million in the note. In June 2020, Wirecard AG, formerly rated as Baa3 by Moodys, filed for insolvency after the very serious fraud was discovered and the share price decreased from EUR 108 on 18 June 2020 to EUR 6.4 on 30 June 2020. The Bank will closely monitor the insolvency proceedings of Wirecard AG. At the same time, the Bank also imposed more stringent risk policy in terms of bond selection and amount subscribed to minimize the occurrence of, and loss from similar risk.

As an innovative private bank, Bendura Bank continues to expand in trading and investment consulting for discrete clients. Considering the strong growth in advisory mandates and tailor-made strategy solutions, the Bank has decided to introduce, alongside with its classic strategies, a whole range of new and innovative investment solutions in 2020.

The new solutions include launching a portfolio which invests globally and focuses primarily on Asian assets, a portfolio which focuses on Eastern Europe, and a portfolio which follows an ESG integrated investment process including ESG impact investments, such as Microfinance and Green Bonds. The creations will allow clients to combine any two or three of the above portfolios to fit the clients' investment and ESG strategies.

As measures to deal with the impact of the COVID-19, all of our employees are equipped with laptops. They can work from home and hence, the daily business will not be affected. All digitalization projects will be pushed so that our employees will have full access to all needed information when working at home. Besides, new software for online on boarding of clients will be implemented and similar software will be provided for new employees.

Performance (Continued)

II.B SHUN HENG FINANCE HOLDING (HONG KONG) LIMITED

The Group currently conducts securities and asset management businesses under the umbrella of Shun Heng Finance Holding (Hong Kong) Limited ("Shun Heng Finance Holding"), which is 60% owned by the Group. It comprises Shun Heng Securities Limited and Hong Kong Metasequoia Capital Management Limited.

For the period ended 30 June 2020, Shun Heng Finance Holding contributed revenue and net profit after tax attributable to owners of the Company of HK$3,917,000 and HK$3,475,000 respectively (six months ended 30 June 2019: HK$960,000 and net profit after tax of HK$5,464,000 respectively).

Shun Heng Securities Limited

Shun Heng Securities Limited ("Shun Heng Securities"), a corporate licensed to conduct Type 1 (dealing in securities) regulated activity under the Securities and Futures Ordinance (the "SFO"), is mainly engaged in securities brokerage and margin businesses. Following Shun Heng Securities upgrading its online trading system which provides higher security and better user experience, the account opening number showed improvement in the first half of 2020. Shun Heng Securities will continue to expand new customers and improve service quality, further taking the brokerage and trading business to a whole new level. In addition to the traditional brokerage business, Shun Heng Securities has actively sought opportunities to grow the underwriting business for overseas bonds issued by Chinese enterprises. From 1 January 2018 to 30 June 2020, Shun Heng Securities has successfully underwritten 11 bond projects with a cumulative amount of approximately US$1 billion, achieving brand awareness in the Hong Kong Market.

Hong Kong Metasequoia Capital Management Limited

Hong Kong Metasequoia Capital Management Limited ("Metasequoia Capital"), a corporate licensed to conduct Type 4 (advisory on securities) and Type 9 (asset management) regulated activities under the SFO, is mainly engaged in asset management business.

Metasequoia Capital has launched two funds, namely Global Opportunities Fund and Stable Growth Fund. Global Opportunities Fund invests mainly in securities markets in Hong Kong and the US, with asset under management slightly decreased from US$10.24 million initially to US$10.03 million now. The Stable Growth Fund invests in domestic CNY bond and reached asset under management of approximately US$6.9 million. Since the two funds were established in August 2017 and December 2018, the current net profit after deducting management fees and performance fees for Global Opportunities Fund and Stable Growth Fund as of 30 June 2020 is 75% and 17%, respectively.

Performance (Continued)

III.A LISTED EQUITY INVESTMENT

(1) Citychamp Dartong Company Limited

As at 30 June 2020, financial assets at fair value through other comprehensive income of the Group was HK$358,439,000. HK$114,935,000 was related to the listed equity investment in the equity share of Citychamp Dartong Company Limited ("Citychamp Dartong"). Citychamp Dartong is a company listed on the Shanghai Stock Exchange (Stock code: 600067) and engaged in real estate, enameled wire, banking and new energy. As at 30 June 2020, the Group owned 30,389,058 shares of Citychamp Dartong at the market price of RMB3.45 per share (equivalent to HK$3.78 per share) with the fair value of HK$114,935,000. The shares held by the Group accounted for 2.04% of the total issued share capital of Citychamp Dartong as at 30 June 2020. Such fair value accounted for 0.6% of the Group's total assets.

The Group incurred a net loss on fair value change through other comprehensive income in investment in Citychamp Dartong of HK$20,241,000 for the period ended 30 June 2020, as a result of decrease in the share price of Citychamp Dartong from RMB3.98 (equivalent to HK$4.45) as at 31 December 2019 to RMB3.45 (equivalent to HK$3.78) as at 30 June 2020.

This is the Group's long-term investment due held for dividend yield and long-term capital gain. Given its substantial land bank for development and profitability of certain business segments, we are optimistic about the future prospects of the Citychamp Dartong.

(2) Min Xin Holdings Limited

Investment in Min Xin Holdings Limited ("Min Xin") (Stock code: 222) was measured at fair value through other comprehensive income. The Company intends to hold the investment on a long-term basis.

Min Xin is a company engaged in financial services, securities trading, real estate development, toll road and manufacturing. As at 30 June 2020, the investment in Min Xin was HK$238,005,000, i.e. 88,150,000 shares at the market price of HK$2.70 per share as at 30 June 2020. Such fair value of the investment accounted for 1.3% of the Group's total assets. The shares held by the Company accounted for 14.76% of the total issued share capital of Min Xin as at 30 June 2020.

The Company incurred a net loss on fair value change in Min Xin's investment of HK$44,075,000 for the period ended 30 June 2020 (six months ended 30 June 2019: net loss of HK$108,425,000), as a result of decrease in the share price of Min Xin from HK$3.20 as at 1 January 2020 to HK$2.70 as at 30 June 2020. For the six months ended 30 June 2020, the Company's dividend income from Min Xin was HK$8,815,000.

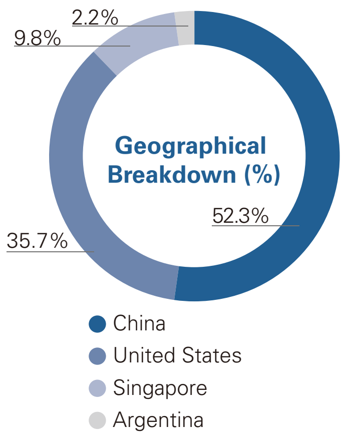
Performance (Continued)

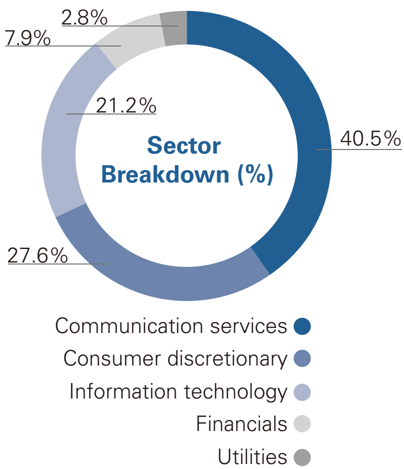
III.B PROPERTY INVESTMENT

The property in Mainland China and Hong Kong owned by the Group have been leased out, with stable rental returns to the Group. During the period, these investment properties generated rental income of HK$4,056,000 (six months ended 30 June 2019: HK$5,145,000). Net Profit after tax from the property investment business for the six months ended 30 June 2020 was HK$3,175,000 (six months ended 30 June 2019: HK$3,715,000).

III.C OTHER MARKETABLE SECURITIES

The Group has acted as the founder investor and invested USD5.12 million in Metasequoia Investment Fund SPC – Global Opportunities Fund SP (the "Fund") since 15 August 2017 in order to facilitate establishing the fund management business with an initial capital of USD10.24 million. The rest of the fund was subscribed by other investors with the capital of USD5.12 million. As of 4 May 2020, the Group redeemed 3,840 shares in the amount USD5,907,000 of Metasequoia Investment Fund SPC which generating a profit of USD2,067,000 since August 2017 and USD655,000 for the period from 1 January 2020 to 4 May 2020 respectively. As of 30 June 2020, the total net asset value of the Fund was USD10.03 million, composed of USD1.87 million and USD8.16 million for the Group and other investors respectively.





HEADQUARTER AND OTHER SUBSIDIARIES

Losses from administrative expenses, finance costs and income tax of the headquarter and other non-major subsidiaries and/or non-major categories of businesses for the six months ended 30 June 2020 was HK$59,948,000 (six months ended 30 June 2019: HK$74,405,000).

Financial Position

(1) LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2020, the Group had non-pledged cash and bank balances of approximately HK$2,423,047,000 (31 December 2019: HK$4,785,483,000). Based on the borrowings of HK$1,744,990,000 (31 December 2019: HK$1,740,362,000), due to a shareholder of HK$12,000,000 (31 December 2019: HK$12,000,000), due to directors of HK$17,000,000 (31 December 2019: HK$22,241,000) and shareholders' equity of HK$4,089,474,000 (31 December 2019: HK$4,255,072,000), the Group's gearing ratio (being borrowings plus due to a shareholder and due to directors divided by shareholders' equity) was 43% (31 December 2019: 41%).

As at 30 June 2020, the Group's borrowings amounting to HK$1,740,917,000 were repayable within one year, representing 99.8% of the total borrowings.

List of borrowings by currencies and by nature of interest rate and by duration

Currency	**Nature of interest rate**	**Duration with 1 year** HK$'000	**Duration with more than 1 year** HK$'000
CHF	Floating	54,260	4,073
HKD	Floating	504,448	–
RMB	Floating	384,589	–
USD	Floating	797,620	–
		1,740,917	4,073

(2) CHARGE ON ASSETS

As at 30 June 2020, the Group's borrowings were secured by:

(a) corporate guarantee provided by certain subsidiaries within the Group;

(b) equity interest of certain subsidiaries within the Group;

(c) guarantee provided by the government of certain country;

(d) a legal charge over the Group's land and buildings with the carrying amount of HK$87,467,000 (31 December 2019: HK$95,180,000); and

(e) certain of the Group's trade receivables with the carrying amounts of HK$11,570,000 (31 December 2019: HK$13,484,000).

(3) CAPITAL COMMITMENT

As at 30 June 2020, capital commitments were approximately HK$478,588,000 in total (31 December 2019: HK$482,652,000) for investment in an associate – Citychamp Allied International Limited and a property project.

Except for the above, the Group had no other material capital commitments as at 30 June 2020.

Financial Review

(1) TOTAL ASSETS

Total assets decreased to HK$18,322,906,000 as at 30 June 2020 from HK$19,597,081,000 as at 31 December 2019.

Cash and deposits

	30 June 2020 HK$'000	31 December 2019 HK$'000	Increase/ (decrease) Amount HK$'000
Cash and bank balance	**377,016**	329,377	47,639
Cash held on behalf of clients	**52,589**	104,227	(51,638)
Sight deposits with central banks	**1,993,442**	4,463,642	(2,470,200)

Due from banks

	30 June 2020 HK$'000	31 December 2019 HK$'000	Increase/ (decrease) Amount HK$'000
Due from banks on a daily basis	**6,149,916**	4,720,429	1,429,487
Due from banks other claims	**205,116**	182,006	23,110
Valuation adjustments	**(2,480)**	(1,237)	1,243

Financial Review (Continued)

(2) INVESTMENTS

The investment as at 30 June 2020 included (a) trading portfolio investments of HK$96,574,000; (b) derivative financial assets of HK$17,794,000; (c) other financial assets at amortised cost of HK$1,347,004,000; and (d) other financial assets at fair value through other comprehensive income of HK$358,439,000 (the "Investments").

(a) Trading portfolio investments of HK$96,574,000

	30 June 2020 HK$'000	31 December 2019 HK$'000
Equity Instruments		
Listed equity instruments in Hong Kong at market value	**19,712**	69,042
Listed equity instruments outside Hong Kong at market value	**4,023**	78,307
Total equity instruments	**23,735**	147,349
Debt instruments		
Unlisted debt instruments of financial institutions	**5,481**	27,612
Investment fund units		
Unlisted investment fund units	**61,093**	46,758
Investments in other financial products	**6,265**	6,184
Total trading portfolio investments	**96,574**	227,903

It is the objective of the Group to maintain certain level of liquidity in the form of trading portfolio investments for unplanned capital expenditure. The liquidity is usually parked with the listed equities in order to generate short term return.

As at 30 June 2020, there were HK$19,712,000 invested in a variety of listed equities in Hong Kong and HK$4,023,000 invested in Mainland China and overseas markets.

The debt instruments of HK$5,481,000 invested in the Mainland China by PRC company.

Trading assets of CHF5.7 million (equivalent to HK$46,625,000) represents the single investment by Bendura Bank in the form of an unlisted investment fund. Bendura Bank acquired above trading assets from a professional counterparty in March 2019. The investment policy of Bendura Bank AG includes strict implementation of the investment process and is subject to constant review by the investment committee.

Investments in other financial products consist of the financial product investments of HK$6,265,000 invested by Eternal Brands Limited, a subsidiary of the Group.

Financial Review (Continued)

(2) INVESTMENTS (Continued)

(b) Derivative financial assets of HK$17,794,000

	30 June 2020 HK$'000	31 December 2019 HK$'000
Forward and option contracts	**17,794**	10,275
	17,794	10,275

In the derivative financial assets of HK$17,794,000, there were forward and option contracts conducted by Bendura Bank.

Bendura Bank offers derivative products including currency forwards and swaps to its clients. These derivative positions were managed through entering back-to-back deals with external parties to ensure that remaining exposures are within acceptable risk levels. First-rate banks serve as counterparties, as is generally the case in trading business. It is not the objective of Bendura Bank to speculate the gain on the change in the price by conducting forward and option contracts without having invested in the underlying assets.

As at 30 June 2020, forward contracts of HK$17,794,000 related to FX swaps were entered by Bendura Bank. Based upon risk/return considerations, client deposits denominated in foreign currencies were, in part, no longer invested on the interbank market but were swapped into Swiss francs using currency swaps and deposited with the Swiss National Bank (SNB). Income from the interest component of currency swaps exceeded the expense of SNB negative interest and the reduced level of interest from banks. During the first half of 2020, Bendura Bank recorded HK$20,896,000 profits with FX swaps.

Financial Review (Continued)

(2) INVESTMENTS (Continued)

(c) Other financial assets at amortised cost of HK$1,347,004,000

	30 June 2020 HK$'000	31 December 2019 HK$'000
Listed debt instruments, at amortised cost		
Issued by:		
Governments and public sector	**82,162**	82,373
Financial institutions	**970,289**	778,199
Corporations	**294,553**	447,388
	1,347,004	1,307,960

Bendura Bank invested in listed debt instruments issued by government and public sector, financial institutions and corporations amounting to HK$1,347,004,000. The portfolio was composed of 78 listed debt instruments with different maturity, geography, segment and currency and hence, diversification is ensured. Almost all listed debt instruments were considered upper-medium-grade and are subject to low credit risk. The average remaining term of the held-to-maturity investment is 2.6 years, while the modified duration of the portfolio is only 1.8%. Largest single investments are bonds issued by International Bank for Reconstruction and Development (CHF10 million) and European Investment Bank (CHF11 million). Both issuers are triple-A rated. Risk concentration is analyzed and presented to the senior management on a monthly basis.

Relatively major listed debt instruments as at 30 June 2020 are as follows:

Issuer	Nature of interest rate	Sector	Maturity date	Value (CHF'000)
Bank of Montreal	Fixed	Financial corporations	22 December 2023	**5,000**
China Merchants Bank/Lux	Fixed	Financial corporations	19 June 2022	**5,340**
Deutsche Bank Ag	Floating	Financial corporations	16 May 2022	**7,472**
Abn Amro Bank Nv	Floating	Financial corporations	19 July 2022	**7,618**
Bank of Nova Scotia	Floating	Financial corporations	05 October 2022	**8,082**
Intl Bk Recon & Develop	Fixed	Financial corporations	19 March 2024	**9,512**
European Investment Bank	Floating	Financial corporations	24 March 2021	**11,434**
Others				**110,598**
Total				**165,056**
Equivalent to HK$'000				**1,347,004**

Collectively, listed debt instruments at amortised cost accounted for 7.4% of the Group's total assets.

Financial Review (Continued)

(2) INVESTMENTS (Continued)

(c) Other financial assets at amortised cost of HK$1,347,004,000 (Continued)

As at 31 December 2019, Bendura Bank invested in listed debt instruments issued by government and public sector, financial institutions and corporations amounting to HK$1,307,960,000. The portfolio was composed of 58 listed debt instruments with different maturity, geography, segment and currency and hence, diversification is ensured. Almost all listed debt instruments were considered upper-medium grade and are subject to low credit risk. The average remaining term of the held-to-maturity investment is 2.4 years. Largest single investments are bond issued by International Bank for Reconstruction and Development (CHF19 million) and followed by European Investment Bank (CHF12 million). Both are triple-A issuers. Risk concentration is analysed and presented to the senior management on a monthly basis.

Relatively major listed debt instruments as at 31 December 2019 are as follows:

Issuer	Nature of interest rate	Sector	Maturity date	Value (CHF'000)
China Merchants Bank/Lux	Fixed	Financial Institutions	19 June 2022	5,426
Deutsche Bank Ag	Floating	Financial Institutions	16 May 2022	7,591
Abn Amro Bank Nv	Floating	Financial Institutions	19 July 2022	7,746
Bank of Nova Scotia	Floating	Financial Institutions	5 October 2022	8,228
Intl Bk Recon & Develop	Fixed	Financial Institutions	19 March 2024	9,670
European Investment Bank	Floating	Financial Institutions	24 March 2021	11,631
Intl Bk Recon & Develop	Floating	Financial Institutions	18 March 2020	19,364
Other				92,845
Total				162,501
Equivalent to HK$'000				1,307,960

Financial Review (Continued)

(2) INVESTMENTS (Continued)

(d) Other financial assets at fair value through other comprehensive income of HK$358,439,000

	30 June 2020 HK$'000	31 December 2019 HK$'000
Listed equity instruments in Hong Kong	**238,005**	282,080
Listed equity instruments outside Hong Kong	**114,935**	135,176
Unlisted equity investment	**5,499**	5,605
	358,439	422,861

Listed equity instruments of HK$114,935,000 related to investment in Citychamp Dartong and HK$238,005,000 related to investment in Min Xin. Details of investments in Citychamp Dartong and Min Xin are set out on division III.A of this management discussion and analysis.

(3) TOTAL LIABILITIES

Total liabilities decreased to HK$13,897,638,000 as at 30 June 2020 from HK$14,936,192,000 as at 31 December 2019, mainly attributable to decrease in due to clients.

Due to clients

	30 June 2020 HK$'000	31 December 2019 HK$'000	Increase/ (decrease) Amount HK$'000	%
Due to clients – precious metals	**141,307**	56,762	84,545	148.9
Other amounts due to clients, mainly bank deposits	**11,019,032**	11,906,290	(887,258)	(7.5)

Financial Review (Continued)

(4) GROSS PROFIT FROM NON-BANKING AND FINANCIAL BUSINESSES

Gross profit from non-banking and financial businesses was HK$306,976,000, a decrease of HK$381,389,000 or 55.4%.

(5) EBITDA

EBITDA was HK$30,566,000, a decrease of HK$227,913,000 or 88.2%.

(6) SELLING AND DISTRIBUTION EXPENSES

Total selling and distribution expenses was HK$255,956,000, a decrease of HK$126,600,000 or 33.1%.

(7) ADMINISTRATIVE EXPENSES

Total administrative expenses was HK$332,622,000, a decrease of HK$67,516,000 or 16.9%.

(8) SHARE OF LOSS/PROFIT OF ASSOCIATES

The share of loss of Fair Future Industrial Limited ("Fair Future"), a 25% owned associate of the Group, was HK$1,071,000 (six months ended 30 June 2019: share of profit HK$6,756,000). Fair Future is one of the leading OEM quartz watch manufacturers in Mainland China.

(9) FINANCE COSTS FROM NON-BANKING BUSINESS

Finance costs from non-banking business was HK$46,825,000, representing an increase of HK$5,943,000 or 14.5%. It was composed of the interest charged on bank borrowings, bank overdrafts and lease liabilities.

(10) NET LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

Net loss attributable to owners of the Company was HK$100,846,000 (six months ended 30 June 2019: net profit attributable to owners of the Company of HK$88,608,000).

(11) INVENTORIES

Inventories was HK$2,149,872,000, a decrease of 4.8% from HK$2,257,966,000 as at 31 December 2019.

(12) EVENTS AFTER REPORTING PERIOD

As of the date of this report, the Group has no significant events after the reporting period required to be disclosed.

The impact of the COVID-19 on the Group

The COVID-19 has devastated the World's largest and most interconnected economies. First reported in late 2019, it was spreading throughout Asia, Europe, the USA, and the rest of the world. The virus also has disrupted a large number of industries that suffered from sharp falls in production and demand, owing to social distancing measures, lockdowns and travel restrictions. It deteriorates the general economic environment and in particular, affects adversely the general consumption. The decrease in general consumption, reinforced by the sudden change of income and wealth as well as the psychological and emotional effect, is further affected by temporary or permanent closures as a result of decrease in foot traffic and additional measures imposed by shopping malls or individual shops.

The COVID-19 will likely go down in history as one of the worst disasters ever in human history. Specifically, the COVID-19 has contributed to approximately 44% reduction of turnover for the Group in the first half of 2020 as compared with the same period last year. The loss was approximately HK$92 million for the first half of 2020 as compared with profit of approximately HK$110 million for the same period last year. With such magnitude of change, we are obliged to assess whether the impact of the COVID-19 has potentially led to asset impairment for tangible and non-tangible assets of the Group.

Specifically, we have to consider the impairment tests for the goodwill and intangible assets as well as the valuation of other assets.

In response to the adverse impacts of the COVID-19, the watch businesses have adopted a number of actions, including implementation of a cost control measures and exploring new distribution channels such as e-commence and new retailing tactics.

It appears that generally, the watch business and banking business are picking up starting from May 2020. In the last few years, the Bank has significantly de-risked the business model in terms of transaction banking and at the same time the Bank has managed to set up a resilient loan book. The short-term and medium-term forecasts are considered, rather uncertain but not unpromising, amid the most recent development of the COVID-19 in Mainland China and the rest of the world as of the review date. Given the urgent and aggressive administrative action with the view to terminate the spread of the disease and the expansionary monetary and fiscal path of most central banks are following, there are possibilities that the global economy, especially Mainland Chinese economy, is going to pick up in the remaining period of 2020. As such, based on the information, both external and internal, currently available to us, and to the best of our current knowledge and analysis, the potential impairments of the above-mentioned assets are considered not necessary for the interim result 2020. We would closely monitor the performance of different businesses and assets in the remaining period of 2020 and consider the short-term and the medium-term forecasts and evaluate them for the proper accounting disclosure in annual report 2020.

The impact of the COVID-19 on the Group (Continued)

We would continuously review the current liquidity position and expected financial resources. To address the adverse impact of COVID-19 on funding needs, we would formulate an action plan. Firstly, we will impose strict cost control measures throughout the entire Group. Secondly, we will apply for government subsidies in Mainland China, Switzerland and Hong Kong to minimize the impact from COVID-19. Thirdly, we will direct the subsidiaries to operate with key focus on liquidity. Lastly, and most importantly, we will work on the change of the portfolio mix of the Group.

Review of Financial Statements

The audit committee of the Company (the "Audit Committee") has reviewed the Group's unaudited financial statements for the six months ended 30 June 2020. Based on this review and discussions with the management, the Audit Committee was satisfied that the unaudited financial statements for the six months ended 30 June 2020 were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the six months ended 30 June 2020.

Corporate Governance

The board of directors of the Company (the "Board") remains focused on improving its effectiveness and the efficiency of the governance processes. We believe that an appropriate mix of skills, experience and perspectives within the Board helps strengthen its effectiveness.

Environmental, Social, and Governance Performance

Good Environmental, Social and Governance, or ESG, practices have always been an integral part of the Group's business strategy and management approach. As a good corporate citizen, the Group contributes to the community that we operate our businesses. We are committed to integrating sustainability into our core business activities and contributing to our community. We supported a wide range of philanthropic initiatives, with an emphasis on education and social welfare. Supporting our community and helping businesses and individuals realize their potential make what we do truly worthwhile.

To adapt to the new requirements of the Listing Rules on ESG commencing from 2020, the Group is under the process of implementing internal processes and systems including designation of a senior management member to head the ESG, implementation of the identification and review process and strengthening of relevant disclosures.

Risk Management

We monitor our risks and uncertainties facing the Group and formulate and adopt appropriate risk management measures against each principal risk and uncertainty. In view of our increasing focus on private banking, fund management and securities trading business, risk management will continue to be of great importance for the Group. To cope with the legal risks of money laundering and tax fraud, Bendura Bank has enhanced the due diligence process on its customers, including review of their business models, economic activities and financial background.

OUTLOOK

Currently, the COVID-19 continues to dominate the headlines, for both everyday life and developments of the global economy and in the financial markets. Most countries have already taken urgent and aggressive administrative actions with the view to terminate the spread of the disease. It appears there is consensus that the low point of the economic developments around the globe was reached in the second quarter of 2020. The People's Bank of China, the European Central Bank and the US Federal Reserve Bank will not be shifting gears in the second half of 2020. Instead, they will largely solidify the expansionary monetary and fiscal path they have taken thus far in the battle against the COVID-19.

There are sights of improvements in the US economy since July 2020, especially after the reopening for business of a number of states. The economy of the European Union is considered to have reached and passed its lowest point of the economic growth in the second quarter of 2020. The leading indicators of the European Union suggest as much, having risen since May 2020. For Mainland China, the recent rise in industrial production matches well with its electricity consumption exceeding its five-year average and its domestic freight volumes returning to its five-year average. These indicators clearly confirm the recovering Chinese economy in the second half of 2020.

In the second half of 2020, the local proprietary watch brand business in Mainland China is expected to rebound gradually although slowly for the following reasons: (a) the relatively satisfactory scenario is achieved through tight control measures all over the country, (b) production and distribution is gradually recovered through opening up of activities, (c) consumer confidence is re-established as a result. Generally, the market conditions are expected to improve in the longer term and hence the demand for watches, both on-line and in physical distribution outlets all over the country, will grow modestly.

The foreign proprietary watch brand business, owing to the adverse impact of social distancing, lockdowns and travel restrictions on their key markets and its market positioning where the general demand is relatively weak, remains very challenging in the second half of 2020.

OUTLOOK (Continued)

Bendura Bank, although its operation and performance being affected by the COVID-19, has developed organically as shown by the stability of asset under management, higher liquidity level and increased headcount amid challenging market conditions. The banking and financial businesses continue to perform with the banking business as the main driver of revenue and profitability in the years to come.

Undoubtedly, we are now facing one of the worst disasters ever in human history. While we are confronting the key issues and risks in this challenging time, we believe that the opportunities in our markets remain substantial and the work that we have done in recent years in enhancing our capabilities and strengthening our resilience put us now in a stronger position to capture those opportunities in spite of COVID-19. We are confident that as we execute our strategic objectives with discipline and passion, we will generate sustainable growth and create long-term value for all our stakeholders.

Employees and Remuneration Policy

Our sustained success would not be possible without the high levels of expertise, professionalism and commitment shown by our employees.

As at 30 June 2020, the Group had approximately 4,900 full-time staff in Hong Kong and Mainland China and approximately 300 in Europe. The remuneration packages offered to the employees were determined and reviewed on an arm's length basis with reference to the market condition and individual performance. The Group also provides other benefits to its employees, including year-end double pay, medical insurance and retirement benefits, and incentive bonuses are offered with reference to the Group's operating results and employees' individual performance. All employees of the Group in Hong Kong have joined the provident fund schemes. Employees of Group's subsidiaries in Mainland China also participate in social insurance scheme administrated and operated by local authorities and contributions are made according to the local laws and regulations.

Dividend

The Board has resolved not to distribute an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2020, the interests or short positions of the Directors and chief executive in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

(1) LONG POSITIONS IN SHARES OF THE COMPANY

As at 30 June 2020, certain Directors and the chief executive of the Company held long positions in the shares of the Company as follows:

	Number of shares held				
Name of director	Beneficial owner	Corporate interests	Family interests	Total interests	Percentage of shareholding
Hon Kwok Lung	3,500,000	3,017,389,515[(1)]	1,374,000[(2)]	3,022,263,515	69.45%
Shang Jianguang *(Executive Director and Chief Executive Officer)*	5,300,000	–	–	5,300,000	0.12%
Shi Tao	5,000,000	–	–	5,000,000	0.11%
Lam Toi Man	2,400,000	–	–	2,400,000	0.06%
Sit Lai Hei	–	200,000,000[(3)]	–	200,000,000	4.60%
Hon Hau Wong	1,750,000	–	200,000,000[(4)]	201,750,000	4.64%
Teguh Halim	3,000,000	–	3,000,000[(5)]	6,000,000	0.14%

Notes:

The percentage of shareholding is calculated on the basis of the Company's issued share capital of 4,351,888,206 shares on 30 June 2020.

1. The 3,017,389,515 shares comprise of 1,640,128,000 shares held by Full Day Limited ("Full Day"), which is wholly-owned by Mr. Hon Kwok Lung and 1,377,261,515 shares held by Sincere View International Limited ("Sincere View"), which is owned as to 80% by Mr. Hon Kwok Lung and 20% by his spouse.

2. 1,374,000 shares were held by Ms. Lam Suk Ying, spouse of Mr. Hon Kwok Lung.

3. The 200,000,000 shares were held by Qiangda Limited, a wholly-owned subsidiary of Fengrong Investment (Hong Kong) Company Limited ("Fengrong Hong Kong"). Fengrong Hong Kong is wholly-owned by Fujian Fengrong Investment Company Limited ("Fujian Fengrong"), which is owned as to approximately 68.5% by Ms. Sit Lai Hei.

4. Mr. Hon Hau Wong is deemed to have an interest in 200,000,000 shares which were held by Qiangda Limited, a wholly-owned subsidiary of Fengrong Hong Kong. Fengrong Hong Kong is wholly-owned by Fujian Fengrong which is owned as to approximately 31.5% by Ms. Lu Xiaojun, spouse of Mr. Hon Hau Wong.

5. 3,000,000 shares were held by Mr. Teguh Halim's wife.

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares (Continued)

(2) LONG POSITION IN SHARES OF THE ASSOCIATED CORPORATIONS OF THE COMPANY

Name of director	Name of associated corporation	Nature of interest	Percentage of shareholding
Sit Lai Hei	Zhuhai Rossini Watch Industry Limited[1]	Corporate[2]	9%
Hon Hau Wong	Zhuhai Rossini Watch Industry Limited[1]	Family Interest[2]	9%

Notes:

1. Zhuhai Rossini Watch Industry Limited ("Rossini") is owned as to 91% indirectly by the Company and 9% by Fujian Fengrong. Rossini is an associated corporation of the Company within the meaning of Part XV of the SFO.

2. The interest in Rossini was held by Fujian Fengrong, which is owned as to approximately 68.5% by Ms. Sit Lai Hei, an Executive Director of the Company (the "Executive Director"), and 31.5% by Ms. Lu Xiaojun. Both Ms. Sit Lai Hei and Ms. Lu Xiaojun are daughters-in-law of Mr. Hon Kwok Lung, an Executive Director. Mr. Hon Hau Wong, being an Executive Director and the husband of Ms. Lu Xiaojun, is also deemed to be interested in the 31.5% interest in Fujian Fengrong.

Save as disclosed above, as at 30 June 2020, no other person had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Share Option Scheme

At the general meeting held on 30 May 2008, the shareholders of the Company (the "Shareholders") adopted a share option scheme (the "Share Option Scheme") for a period of 10 years commencing on the adoption date. The purpose of the Share Option Scheme is to enable the Company to grant options to selected eligible participants as incentives or rewards for their contribution or potential contribution to the Group. The Directors of the Company consider that the Share Option Scheme will provide the eligible participants with opportunity to acquire proprietary interests in the Company and will encourage such eligible participants to work towards enhancing the value of the Company for the benefit of the Company and its Shareholders as a whole.

All the share options under the Share Option Scheme have been exercised or lapsed by the end of 2018.

Substantial Shareholders' Interests in Shares and Underlying Shares

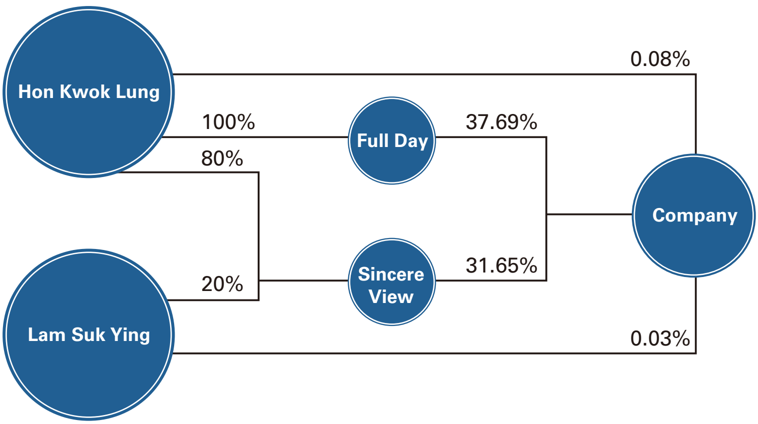
As at 30 June 2020, the following persons hold interests of 5% or more of the issued share capital of the Company, as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

	Nature of interest	No. of shares	Percentage of existing issued capital
Sincere View International Limited	Beneficial owner	1,377,261,515	31.65%
Full Day Limited	Beneficial owner	1,640,128,000	37.69%
Hon Kwok Lung (1)	Corporate interest, beneficial owner and family interest	3,022,263,515	69.45%
Lam Suk Ying (1)	Beneficial owner and family interest	3,022,263,515	69.45%

Note:

The percentage of shareholding is calculated the basis of the Company's issued share capital of 4,351,888,206 shares on 30 June 2020.

1. Mr. Hon Kwok Lung and Ms. Lam Suk Ying, his spouse, are deemed to have an interest in the same parcel of 3,022,263,515 shares, which comprise 1,377,261,515 shares held by Sincere View, 1,640,128,000 shares held by Full Day, 3,500,000 shares held by Mr. Hon Kwok Lung and 1,374,000 shares are held by Ms. Lam Suk Ying. The shareholding structure was summarised in the following chart:



Save as disclosed above, as at 30 June 2020, no other person, other than the Directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above, had registered an interest or short position in the shares and underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Corporate Governance Code

During the six months period ended 30 June 2020, the Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules, except with the details disclosed below:

(1) CG CODE E.1.2

CG Code E.1.2 stipulates that the chairman of the Board should attend the annual general meeting. The Chairman of the Board was unable to attend the annual general meeting of the Company held on 30 June 2020 (the "AGM 2020") due to other business engagement.

(2) CG CODE A.6.7

CG Code A.6.7 stipulates that independent non-executive directors of the Company (the "Independent Non-executive Director") should attend general meetings. Three Independent Non-executive Directors did not attend the AGM 2020 due to other business engagements or travel restrictions under COVID-19.

Note:

Mr. Fung Tze Wa ("Mr. Fung") and Mr. Rudolf Heinrich Escher ("Mr. Escher") resigned from their respective directorship with effect from 1 September 2020 and accordingly, Mr. Fung ceased to be the chairman of Audit Committee and a member of each of the Remuneration Committee and Nomination Committee and Mr. Escher ceased to be a member of each of the Audit Committee, Remuneration Committee and Nomination Committee. Upon of their resignation, the Board comprises of ten Directors, including eight Executive Directors and two Independent Non-executive Directors. The number and composition of Independent Non-executive Directors fail to meet the requirements under (i) Listing Rule 3.10(1) which requires that every board of directors must include at least three independent non-executive directors; (ii) Listing Rule 3.10(2) which requires at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise; and (iii) Listing Rule 3.10A which requires that the number of independent non-executive directors must represent at least one-third of the board.

In addition, following the resignation of Mr. Fung and Mr. Escher, the Company does not meet the requirements of the Listing Rules (i) Rule 3.21 which requires that the Audit Committee must be chaired by an independent non-executive director and comprise a minimum of three members and at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2); (ii) Rule 3.25 requires that the Remuneration Committee must be chaired by an independent non-executive director and comprise a majority of independent non-executive directors; and (iii) Code Provision A.5.1 of the CG Code requires the Nomination Committee must comprise a majority of independent non-executive directors.

The Company is endeavoring to identify the suitable candidates to be appointed as additional Independent Non-executive Directors and members of Audit Committee, Remuneration Committee and Nomination Committee as soon as practicable so as to comply with the requirements of Rules 3.10, 3.10A, 3.21 and 3.25 of the Listing Rules and code provision A.5.1 of the CG Code under the Listing Rules.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as the Company's code of conduct for dealings in securities of the Company by the Directors. Based on specific enquiry of the Directors, the Directors have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2020.

Board Committees

AUDIT COMMITTEE

The Audit Committee currently comprises following members:

Independent Non-executive Directors
Kwong Chun Wai, Michael
Zhang Bin

During the period under review, the Audit Committee met with the Company's external auditor, the Board and senior management. The Audit Committee reviewed the financial reporting and other information to Shareholders (including a review of the unaudited financial statements for the six months ended 30 June 2020), the accounting system, the system of internal controls and performed other duties set out in the terms of reference. The Audit Committee also reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters with the Board and senior management.

REMUNERATION COMMITTEE

The remuneration committee of the Company (the "Remuneration Committee") currently comprises following members:

Independent Non-executive Directors
Kwong Chun Wai, Michael
Zhang Bin

Executive Directors
Hon Kwok Lung
Shang Jianguang

The Remuneration Committee makes recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy. The Remuneration Committee also makes recommendations to the Board on the remuneration packages of individual Executive Directors and senior management. The Remuneration Committee ensures that no Director or any of his/her associates is involved in deciding his/her own remuneration.

Board Committees (Continued)

NOMINATION COMMITTEE

The nomination committee of the Company (the "Nomination Committee") currently comprises following members:

Executive Directors
Hon Kwok Lung *(Committee Chairman)*
Shang Jianguang

Independent Non-executive Directors
Kwong Chun Wai, Michael
Zhang Bin

The principal duties of the Nomination Committee are to review the structure, size, composition and diversity (including but not limited to gender, age, cultural and educational background, independence from or relationship with other members of the Board, experience (professional or otherwise), skills, knowledge and length of service) of the Board, identify and nominate individuals suitably qualified to become board members and make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors. The Nomination Committee also develops, maintains and reviews the board diversity policy. The Nomination Committee is also responsible for assessing the independence of Independent Non-executive Directors.

RISK MANAGEMENT COMMITTEE

The risk management committee of the Company (the "Risk Management Committee") currently comprises following members:

Executive Directors
Sit Lai Hei *(Committee Chairman)*
Shi Tao
Lam Toi Man
Bi Bo

The principal duties of the Risk Management Committee are to evaluate and determine the risk appetite that the Group is willing to take in achieving its strategic objectives, to oversee the Group's risk management system on an ongoing basis and conduct a review on the effectiveness of the system at least once annually, and to identify significant risks to which the Group is exposed and develop plans and measures to management or mitigate such significant risks.

Buy-Back, Redemption or Sale of Listed Securities of the Company

During the six months ended 30 June 2020, the Company did not buy back any Company's listed shares (whether on the Stock Exchange or otherwise).

Specific Performance Obligations on Controlling Shareholder of the Company

On 16 July 2019, the Company and a syndicate of banks (the "Syndicated Banks") entered into a facility agreement (the "Syndicated Loan Agreement"), with Hang Seng Bank Limited ("Hang Seng") as the mandated lead arranger, pursuant to which the Syndicated Banks have agreed to grant a term loan facility in the amount up to US$150,000,000 (the "Syndicated Loan") to the Company for a term of 36 months.

Pursuant to the Syndicated Loan Agreement, it will be an event of default if (1) Mr. Hon Kwok Lung ("Mr. Hon") together with his direct family members and Ms. Sit Lai Hei (the "Hon Family") fail to maintain (i) directly or indirectly, at least 60% of the beneficial shareholding interest in the issued share capital of the Company; or (ii) control over the management and business of the Company and its subsidiaries (excluding Bendura Bank AG and its subsidiaries and Shun Heng Finance Holding (Hong Kong) Limited and its subsidiaries; or (2) Mr. Hon (or another member of the Hon Family) is not the chairman of the Board. On and at any time after the occurrence of such event which is continuing, Hang Seng as the agent may, and shall if so directed by the Syndicated Banks whose commitments aggregate $66^2/_3$% or more of the total commitment, by notice to the Company, (i) cancel the commitments (and reduce them to zero); (ii) declare that all or part of the Syndicated Loan, together with accrued interest, and all other amounts accrued or outstanding be immediately due and payable; (iii) declare that all or part of the Syndicated Loan be payable on demand; and/or (iv) exercise or direct Hang Seng as the security agent to exercise any or all of its rights, remedies, powers or discretions under the Syndicated Loan Agreement.

Details are set out in the announcement of the Company dated 16 July 2019.

Appreciation

Our financial performance and strategic moves reflected the joint efforts of the Board and management in successfully pursuing our mission. Our performance could not have achieved without the leadership of the Board and our management team. I would like to express my deep gratitude to our employees, customers, suppliers, bankers, professional consultants, business partners, and Shareholders for their support.

Hon Kwok Lung
Chairman

Hong Kong, 28 August 2020

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2020

	Notes	Six months ended 30 June 2020 HK$'000 (Unaudited)	2019 HK$'000 (Unaudited)
Interest income from banking business		**91,674**	112,844
Interest expenses from banking business		**(17,463)**	(18,181)
Net interest income from banking business	6a	**74,211**	94,663
Service fees and commission income from banking business		**132,473**	149,352
Service fees and commission expenses from banking business		**(32,183)**	(39,182)
Net service fees and commission income from banking business	6b	**100,290**	110,170
Trading income from banking business	6c	**20,693**	28,608
Service fees and commission income from financial business	6d	**3,891**	858
Interest income from financial business	6d	**26**	102
Sales of goods from non-banking and financial businesses	6e	**592,947**	1,182,778
Rental income from non-banking and financial businesses	6e	**4,056**	5,145
Total revenue		**796,114**	1,422,324
Cost of sales from non-banking and financial businesses		**(290,027)**	(499,558)
Other ordinary income and other net gains or losses	7	**44,641**	45,272
Selling and distribution expenses		**(255,956)**	(382,556)
Administrative expenses		**(332,622)**	(400,138)
Share of loss of joint ventures		**(348)**	(1,345)
Share of (loss)/profit of associates		**(1,071)**	6,756
Finance costs	8	**(46,825)**	(40,882)
(Loss)/Profit before income tax	9	**(86,094)**	149,873
Income tax expense	10	**(6,381)**	(39,884)
(Loss)/Profit for the period		**(92,475)**	109,989

For the six months ended 30 June 2020

	Notes	Six months ended 30 June 2020 HK$'000 (Unaudited)	2019 HK$'000 (Unaudited)
Other comprehensive income			
Items that will not be subsequently reclassified to profit or loss			
– Change in fair value of financial assets at fair value through other comprehensive income	15	**(64,316)**	(74,790)
– Remeasurement of net defined benefit obligation		**525**	(1,316)
– Release of exchange reserve upon disposal of a subsidiary	29	**(405)**	–
		(64,196)	(76,106)
Item that may be subsequently reclassified to profit or loss			
– Exchange differences on translation to presentation currency		**275**	(4,266)
Other comprehensive income for the period		**(63,921)**	(80,372)
Total comprehensive income for the period		**(156,396)**	29,617
(Loss)/Profit for the period attributable to:			
Owners of the Company		**(100,846)**	88,608
Non-controlling interests		**8,371**	21,381
		(92,475)	109,989
Total comprehensive income for the period attributable to:			
Owners of the Company		**(164,749)**	8,765
Non-controlling interests		**8,353**	20,852
		(156,396)	29,617
(Loss)/Earnings per share attributable to owners of the Company for the period	12		
– Basic		**(HK2.32 cents)**	HK2.04 cents
– Diluted		**(HK2.32 cents)**	HK2.04 cents

Condensed Consolidated Statement of Financial Position

As at 30 June 2020

	Notes	**30 June 2020 HK$'000 (Unaudited)**	31 December 2019 HK$'000 (Audited)
Assets			
Cash and deposits		**2,423,047**	4,897,246
Due from clients	13	**2,118,488**	2,093,250
Due from banks	13	**6,352,552**	4,901,198
Trading portfolio investments	14	**96,574**	227,903
Financial assets at fair value through other comprehensive income	15	**358,439**	422,861
Derivative financial assets	16	**17,794**	10,275
Trade receivables	17	**393,393**	478,262
Other financial assets at amortised cost	18	**1,347,004**	1,307,960
Inventories	19	**2,149,872**	2,257,966
Income tax recoverable		**4,541**	7,706
Interests in joint ventures		**748**	1,096
Interests in associates		**114,415**	115,486
Property, plant and equipment	20	**1,112,297**	1,148,049
Investment properties	21	**182,186**	182,186
Intangible assets	22	**51,845**	52,089
Goodwill	23	**1,059,625**	1,065,051
Deferred tax assets		**12,561**	11,626
Other assets		**527,525**	416,871
Total assets		**18,322,906**	19,597,081

	Notes	**30 June 2020 HK$'000 (Unaudited)**	31 December 2019 HK$'000 (Audited)
Liabilities			
Due to banks		**9,767**	17,968
Due to clients		**11,160,339**	11,963,052
Derivative financial liabilities	16	**9,369**	54,788
Trade payables	24	**299,763**	411,427
Contract liabilities		**6,615**	18,565
Income tax payables		**58,646**	55,577
Borrowings	25	**1,744,990**	1,740,362
Provisions		**1,703**	–
Lease liabilities		**67,509**	83,975
Deferred tax liabilities		**55,138**	59,881
Due to a shareholder		**12,000**	12,000
Due to directors		**17,000**	22,241
Other liabilities		**454,799**	496,356
Total liabilities		**13,897,638**	14,936,192
EQUITY			
Equity attributable to owners of the Company			
Share capital		**435,189**	435,189
Reserves		**3,654,285**	3,819,883
		4,089,474	4,255,072
Non-controlling interests		**335,794**	405,817
Total equity		**4,425,268**	4,660,889
Total liabilities and equity		**18,322,906**	19,597,081

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	Equity attributable to owners of the Company			
	Share capital HK$'000 (Unaudited)	Share premium account* HK$'000 (Unaudited)	Other reserve* HK$'000 (Unaudited)	Goodwill arising on consolidation* HK$'000 (Unaudited)
At 1 January 2019	435,189	682,028	(71,705)	(15,300)
Transactions with owners				
Partial disposal of subsidiaries without loss of control	–	–	63,929	–
Deemed acquisition of non-controlling interests	–	–	50	–
Dividend paid to non-controlling interests	–	–	–	–
Total transactions with owners	–	–	63,979	–
Comprehensive income				
Profit for the period	–	–	–	–
Other comprehensive income				
Exchange differences on translation to presentation currency	–	–	–	–
Changes in fair value of financial assets at fair value through other comprehensive income	–	–	–	–
Remeasurement of net defined benefit obligation	–	–	–	–
Total comprehensive income	–	–	–	–
At 30 June 2019	435,189	682,028	(7,726)	(15,300)

Equity attributable to owners of the Company							
Statutory reserve* HK$'000 (Unaudited)	Exchange fluctuation reserve* HK$'000 (Unaudited)	Fair value through other comprehensive income reserve*# HK$'000 (Unaudited)	Revaluation reserve for property, plant and equipment* HK$'000 (Unaudited)	Retained profits* HK$'000 (Unaudited)	Total HK$'000 (Unaudited)	Non-controlling interests HK$'000 (Unaudited)	Total equity HK$'000 (Unaudited)
103,262	(186,232)	127,184	34,916	3,330,449	4,439,791	369,700	4,809,491
–	–	–	–	–	63,929	47,443	111,372
–	–	–	–	–	50	(228)	(178)
–	–	–	–	–	–	(15,819)	(15,819)
–	–	–	–	–	63,979	31,396	95,375
–	–	–	–	88,608	88,608	21,381	109,989
–	(4,209)	–	–	–	(4,209)	(57)	(4,266)
–	–	(74,790)	–	–	(74,790)	–	(74,790)
–	–	–	–	(844)	(844)	(472)	(1,316)
–	(4,209)	(74,790)	–	87,764	8,765	20,852	29,617
103,262	(190,441)	52,394	34,916	3,418,213	4,512,535	421,948	4,934,483

For the six months ended 30 June 2020

	Equity attributable to owners of the Company			
	Share capital HK$'000 (Unaudited)	Share premium account* HK$'000 (Unaudited)	Other reserve* HK$'000 (Unaudited)	Goodwill arising on consolidation* HK$'000 (Unaudited)
At 1 January 2020	**435,189**	**682,028**	**(12,711)**	**(15,300)**
Transactions with owners				
Disposal of a subsidiary (note 29)	–	–	–	–
Deemed acquisition of non-controlling interests (note 28(b))	–	–	(849)	–
Dividend paid to non-controlling interests	–	–	–	–
Total transactions with owners	–	–	(849)	–
Comprehensive income				
(Loss)/Profit for the period	–	–	–	–
Other comprehensive income				
Exchange differences on translation to presentation currency	–	–	–	–
Changes in fair value of financial assets at fair value through other comprehensive income	–	–	–	–
Release of exchange reserve to profit or loss upon disposal of a subsidiary (note 29)	–	–	–	–
Remeasurement of net defined benefit obligation	–	–	–	–
Total comprehensive income	–	–	–	–
At 30 June 2020	**435,189**	**682,028**	**(13,560)**	**(15,300)**

* These reserve accounts comprise the consolidated reserves of HK$3,654,285,000 (31 December 2019: HK$3,819,883,000) in the condensed consolidated statement of financial position.

The entire balance of fair value through other comprehensive income reserve belongs to non-recycling portion.

For the six months ended 30 June 2020

Equity attributable to owners of the Company							
Statutory reserve* HK$'000 (Unaudited)	Exchange fluctuation reserve* HK$'000 (Unaudited)	Fair value through other comprehensive income reserve*# HK$'000 (Unaudited)	Revaluation reserve for property, plant and equipment* HK$'000 (Unaudited)	Retained profits* HK$'000 (Unaudited)	Total HK$'000 (Unaudited)	Non-controlling interests HK$'000 (Unaudited)	Total equity HK$'000 (Unaudited)
105,931	(274,314)	(77,049)	34,916	3,376,382	4,255,072	405,817	4,660,889
–	–	–	–	–	–	(54,638)	(54,638)
–	–	–	–	–	(849)	(2,130)	(2,979)
–	–	–	–	–	–	(21,608)	(21,608)
–	–	–	–	–	(849)	(78,376)	(79,225)
–	–	–	–	(100,846)	(100,846)	8,371	(92,475)
–	480	–	–	–	480	(205)	275
–	–	(64,316)	–	–	(64,316)	–	(64,316)
–	(405)	–	–	–	(405)	–	(405)
–	–	–	–	338	338	187	525
–	75	(64,316)	–	(100,508)	(164,749)	8,353	(156,396)
105,931	(274,239)	(141,365)	34,916	3,275,874	4,089,474	335,794	4,425,268

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Net cash used in operating activities	**(2,370,771)**	(927,252)
Cash flows from investing activities		
Dividend received	**8,872**	400
Payment for the purchase of property, plant and equipment	**(53,628)**	(44,751)
Proceeds on disposal of property, plant and equipment	**–**	3,498
Increase in other financial assets at amortised costs	**(20,537)**	(210,318)
Decrease in pledged bank deposit	**111,763**	–
Other cash flows arising from investing activities	**4,621**	14,077
Net cash generated from/(used in) investing activities	**51,091**	(237,094)
Cash flows from financing activities		
Acquisition of non-controlling interests	**(2,979)**	–
Repayments of borrowings	**(539,731)**	(111,343)
Proceeds from borrowings	**544,576**	121,384
Proceeds from disposal of interest in subsidiaries to non-controlling interests	**–**	111,372
Proceeds from disposal of interest in subsidiaries	**45,794**	–
Repayment to a shareholder	**–**	(73,000)
(Repayment to)/advance from directors	**(5,000)**	15,000
Interest paid	**(44,066)**	(38,318)
Dividend paid to non-controlling interests	**(21,608)**	(15,819)
Other cash flows arising from financing activities	**(963)**	(178)
Net cash (used in)/generated from financing activities	**(23,977)**	9,098
Net decrease in cash and cash equivalents	**(2,343,657)**	(1,155,248)
Cash and cash equivalents at the beginning of the period (note)	**4,631,702**	7,686,921
Effect of foreign exchange rates changes	**28,151**	(1,993)
Cash and cash equivalents at the end of the period (note)	**2,316,196**	6,529,680

Note: Cash and cash equivalents comprised cash and bank balances and bank overdrafts for the purpose of condensed consolidated statements of cash flows.

Notes to the Unaudited Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2020

1. General Information

Citychamp Watch & Jewellery Group Limited (the "Company") is a limited liability company incorporated in Cayman Islands. Its registered office address is P.O. Box 309, Ugland House, South Church Street, Grand Cayman, Cayman Islands and its principal place of business is Units 1902–04, Level 19, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the period, the principal activities of the Company and its subsidiaries (together referred to as the "Group") include:

– Manufacturing and distribution of watches and timepieces;

– Property investments; and

– Banking and financial businesses.

There was no significant change in the Group's operations during the period.

The Group's principal places of the business are in Hong Kong, Switzerland, United Kingdom, Liechtenstein and the People's Republic of China (the "PRC").

2. Basis of Preparation

The unaudited condensed interim financial information ("the Unaudited Interim Financial Information") has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and with the applicable disclosure provisions in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Unaudited Interim Financial Information is presented in Hong Kong Dollars ("HK$"), which is also the functional currency of the Company and all values are rounded to the nearest thousand ("HK$'000") unless otherwise stated.

The Unaudited Interim Financial Information for the six months ended 30 June 2020 was approved for issue by the board of directors on 28 August 2020.

3. Summary of Significant Accounting Policies

The Unaudited Interim Financial Information has been prepared in accordance with the accounting policies and method of computation used in the 2019 Annual Financial Statements, except for the adoption of the new or amended Hong Kong Financial Reporting Standards ("HKFRSs"), which include individual HKFRSs, HKAS and Interpretations ("Int"). The Group has not early adopted any new HKFRSs that have been issued but are not yet effective. The Unaudited Interim Financial Information should be read in conjunction with the 2019 Annual Financial Statements.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The Group makes estimates and assumptions concerning the future. Such estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below:

Estimated impairment of goodwill

The Group tests on an annual basis whether goodwill has suffered any impairment. The recoverable amounts of the cash generating units ("CGUs") have been determined based on value-in-use calculations or fair value less cost of disposal ("FVLCD"). These calculations require the use of judgement and estimates of the future cash flows expected to arise from the CGUs, the timeframe for the cash flows forecast and the suitable discount rates in order to calculate the present value. In the process of estimating expected future cash flows, management makes assumptions about future revenues and profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause a material adjustment to the carrying amount of goodwill within the next financial year. Determining the appropriate discount rate involves estimating the appropriate adjustment for market risk and for asset specific risk factors. Calculation of FVLCD involves the selection of valuation model, adoption of key assumption, and input data, which are subject to management judgement.

Provision for inventories

In determining the amount of allowance required for obsolete and slow-moving inventories, the Group would evaluate ageing analysis of inventories and compare the carrying value of inventories to their respective estimated net realisable value. The assessment of the provision involves management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of inventories and provision charge/write-back in the period in which such estimate has been changed.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

Depreciation and amortisation

The Group depreciates and amortises its property, plant and equipment and intangible assets with definite useful lives using straight-line method over their respective estimated useful lives, starting from the date on which the assets are put into productive use. The estimated useful lives reflect the directors' estimate of the period that the Group intends to derive future economic benefits from the use of these assets.

Estimated impairment of trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables on a forward-looking basis. The provision matrix is determined based on the Group's historical observed default rates over the expected life of the trade and other receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. Other receivables is considered 12-months expected credit losses. In making the judgement, management considers available reasonable and supportive forward-looking information such as actual or expected significant changes in the operating results of customers, actual or expected significant adverse changes in business and customers' financial position. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed by the Group's management.

Impairment of non-financial assets

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. The recoverable amount is determined based on value-in-use calculation or fair value less costs of disposal ("FVLCD"). The calculations of value in use require the use of judgement and estimates of the future cash flows expected to arise from the CGUs, the timeframe for the cash flows forecast and the suitable discount rates in order to calculate the present value. In the process of estimating expected future cash flows, management makes assumptions about future revenues and profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause a material adjustment to the carrying amount of goodwill within the next financial year. Determining the appropriate discount rate involves estimating the appropriate adjustment for market risk and for asset specific risk factors. Calculation of FVLCD involves the selection of valuation model, adoption of key assumption, and input data, which are subject to management judgement.

Income taxes

The Group is subject to income taxes in Hong Kong, Switzerland, United Kingdom, Liechtenstein and the PRC. Significant judgement is required in determining the amount of the provision for income taxes and the timing of the payments of related taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

Warranty provision

Warranty provision is made for expenditure associated with future variable services and repair cost related to warranty claims. The management makes an assessment of the future costs related to this work by using the proportion of actual tasks related to warranty work as the basis for the calculation. The assessment of provision involves management judgement and estimates. When the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of warranty provision and provision charge/write-back in the period in which such estimate has been changed.

Estimation of defined benefit obligations

The Group operates four defined benefit plans. Pension costs for defined benefit plans are assessed using the projected unit credit method in accordance with HKAS 19 (2011), Employee Benefits. Under this method, the cost of providing pensions is charged to the profit or loss in accordance with the advice of the actuaries who carry out a full valuation of the plans. The pension obligation is measured at the present value of the estimated future cash outflows using interest rates determined by reference to market yields at the end of the reporting period based on government agency or high quality corporate bonds with currency and term similar to the estimated term of benefit obligations. All actuarial gains and losses are recognised in full, in the year in which they occur, in other comprehensive income.

Management appointed actuaries to carry out a full valuation of these pension plans to determine the pension obligations that are required to be disclosed and accounted for in the accounts in accordance with the requirements of HKFRSs.

The actuaries use assumptions and estimates in determining the fair value of the defined benefit plans and evaluate and update these assumptions on an annual basis. Judgement is required to determine the principal actuarial assumptions to determine the present value of defined benefit obligations and service costs. Changes to the principal actuarial assumptions can significantly affect the present value of plan obligations and service costs in future periods.

Valuation adjustments on credit positions

Various factors can influence the expected credit loss allowances for credit positions. Management considers factors such as external rating and days past due to determine the HKFRS 9 staging allocation. Management further estimates the exposure at default, probability of default as well as loss given default to calculate the expected credit losses allowance.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

Provisions

The Group recognises provisions for imminent threats if in the opinion of the responsible experts the probability that losses will occur is greater than the probability that they will not occur and if their amount can be reliably estimated. In judging whether the creation of a provision and its amount are reasonable, the best-possible estimates and assumptions as at the end of reporting periods are applied. If necessary, these will be adjusted to reflect new knowledge and circumstances at a later date. New knowledge may have a significant effect to profit or loss.

Research and development costs

In accordance with the accounting policy set out in note 4.12 of 2019 Annual Financial Statements, costs associated with research activities are expensed in profit or loss as they are incurred, while costs that are directly attributable to development activities are recognised as intangible assets provided they meet all the requirements as set out in note 4.12 of 2019 Annual Financial Statements. This requires the management to make judgements to distinguish the research phase and development phase of the projects being undertaken. Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development is the application of research, findings or other knowledge to a plan or design for the production of new or substantially improved materials devices, products, processes, systems or services before the start of commercial production or use. Determining the amounts to be expensed in profit or loss or to be capitalised required management to make judgement, and assumptions regarding the expected progress and outcome of the research and development activities the future expected cash generation of the assets, discount rates to be applied, and also the expected period of, probable future economic benefits. Because of the nature of the Group's research and development activities, the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the projects. Hence research costs are generally recognised as expenses in the period in which they are incurred.

Right-of-use assets

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

Going concern assumption

The directors of the Company have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern for at least the next twelve months from the end of the reporting period and to meet its financial obligations, as and when they fall due. Certain plans and measures as stated in note 3.3 of 2019 Annual Financial Statements have been taken and are being taken to manage the Group's liquidity needs and to improve its financial position.

Should the Group be unable to continue as a going concern, adjustment would have to be made to write down the carrying value of the Group's assets to their net realisable amounts, and to provide for further liabilities that might arise. The effect of these potential adjustments has not been reflected in the condensed consolidated financial statements.

Fair value measurement

A number of assets and liabilities included in the Group's condensed consolidated financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the "fair value hierarchy"):

– Level 1: unadjusted quoted prices in active markets for identical assets or liabilities;

– Level 2: observable inputs other than quoted price included with Level 1; and

– Level 3: unobservable inputs are inputs for which market data are not available.

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

Fair value measurement (Continued)

The Group measures the following items at fair value:

- Due from banks – precious metal
- Due to clients – precious metal
- Trading portfolio investments
- Derivative financial assets
- Derivative financial liabilities
- Financial assets at fair value through other comprehensive income
- Investment properties

5. Segment Information

The chief operating decision-maker is identified as executive directors. The executive directors have identified the Group's product and service lines as operating segments as follows:

(a) manufacture and distribution of watches and timepieces;

(b) property investments; and

(c) banking and financial businesses.

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

5. Segment Information (Continued)

	Six months ended 30 June 2020				
	Watches and timepieces HK$'000 (Unaudited)	Property investments HK$'000 (Unaudited)	Banking and financial businesses HK$'000 (Unaudited)	Unallocated HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
Segment revenue:					
Net interest income from banking business	–	–	74,211	–	74,211
Net service fees and commission income from banking business	–	–	100,290	–	100,290
Trading income from banking business	–	–	20,693	–	20,693
Service fees and commission income from financial business	–	–	3,891	–	3,891
Interest income from financial business	–	–	26	–	26
Sales of goods from non-banking and financial businesses	592,947	–	–	–	592,947
Rental income from non-banking and financial businesses	–	4,056	–	–	4,056
Total revenue	592,947	4,056	199,111	–	796,114
Segment results	(46,277)	3,252	36,835	–	(6,190)
Unallocated corporate income and expenses, net	–	–	–	(31,660)	(31,660)
Share of loss of joint ventures	–	–	–	(348)	(348)
Share of loss of associates	–	–	–	(1,071)	(1,071)
Finance costs	(14,783)	–	(170)	(31,872)	(46,825)
Loss before income tax	(61,060)	3,252	36,665	(64,951)	(86,094)
Income tax expense	(2,743)	(77)	(3,094)	(467)	(6,381)
Loss for the period	(63,803)	3,175	33,571	(65,418)	(92,475)

5. Segment Information (Continued)

	Six months ended 30 June 2019				
	Watches and timepieces HK$'000 (Unaudited)	Property investments HK$'000 (Unaudited)	Banking and financial businesses HK$'000 (Unaudited)	Unallocated HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
Segment revenue:					
Net interest income from banking business	–	–	94,663	–	94,663
Net service fees and commission income from banking business	–	–	110,170	–	110,170
Trading income from banking business	–	–	28,608	–	28,608
Service fees and commission income from financial business	–	–	858	–	858
Interest income from financial business	–	–	102	–	102
Sales of goods from non-banking and financial businesses	1,182,778	–	–	–	1,182,778
Rental income from non-banking and financial businesses	–	5,145	–	–	5,145
Total revenue	1,182,778	5,145	234,401	–	1,422,324
Segment results	131,011	3,942	102,540	–	237,493
Unallocated corporate income and expenses, net	–	–	–	(52,149)	(52,149)
Share of loss of joint ventures	–	–	–	(1,345)	(1,345)
Share of profit of associates	–	–	–	6,756	6,756
Finance costs	(12,788)	–	(427)	(27,667)	(40,882)
Profit before income tax	118,223	3,942	102,113	(74,405)	149,873
Income tax expense	(27,036)	(227)	(12,621)	–	(39,884)
Profit for the period	91,187	3,715	89,492	(74,405)	109,989

6. Revenue

The Group is principally engaging in manufacture and distribution of watches and timepieces, property investments and banking and financial businesses.

For banking and financial businesses, revenue mainly comprises net interest income, net service fees and commission income and net trading income. For non-banking and financial businesses, revenue mainly represents the net invoiced value of goods sold, after allowance for returns and trade discounts and rental income received and receivables.

Revenue recognised during the period is as follows:

(a) Net interest income from banking business

	Six months ended 30 June	
	2020	2019
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Interest income from banking business arising from:		
Interest income – due from banks	**58,050**	79,983
Interest income – due from clients	**12,376**	14,092
Interest income from trading portfolio investments	**–**	3
Interest income from mortgage loans	**9,377**	6,998
Interest income from debt instruments	**9,664**	11,794
Interest income from money market papers	**532**	–
Negative interest income/(expense) on due to clients	**1,675**	(26)
	91,674	112,844
Interest expenses from banking business arising from:		
Interest expense on due to banks	**(14,625)**	(17,611)
Interest expense on due to clients	**(2,655)**	(500)
Negative interest income on due from banks and clients	**(183)**	(70)
	(17,463)	(18,181)
Net interest income from banking business	**74,211**	94,663

6. Revenue (Continued)

(b) Net service fees and commission income from banking business

	Six months ended 30 June	
	2020	2019
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Service fees and commission income from banking business arising from:		
Commission income from loans	**1,804**	4,666
Brokerage fees	**28,757**	16,123
Custody account fees	**11,986**	13,523
Commission on investment advice and asset management	**45,227**	46,423
Commission income from service fees	**20,289**	36,656
Commission income from fiduciary fees	**238**	296
Commission income from retrocession	**2,659**	3,043
Other commission income	**21,513**	28,622
	132,473	149,352
Service fees and commission expenses from banking business	**(32,183)**	(39,182)
Net service fees and commission income from banking business	**100,290**	110,170

(c) Trading income from banking business

	Six months ended 30 June	
	2020	2019
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Debt instruments	**–**	(55)
Forex and precious metals	**20,693**	27,929
Funds	**–**	734
Trading income from banking business	**20,693**	28,608

6. Revenue (Continued)

(d) Revenue from financial business

	Six months ended 30 June	
	2020	2019
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Service fees and commission income	**3,891**	858
Interest income	**26**	102
Revenue from financial business	**3,917**	960

(e) Revenue from non-banking and financial businesses

	Six months ended 30 June	
	2020	2019
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Sale of goods	**592,947**	1,182,778
Rental income	**4,056**	5,145
Revenue from non-banking and financial businesses	**597,003**	1,187,923

7. Other Ordinary Income and Other Net Gains or Losses

	Six months ended 30 June	
	2020	2019
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Gain on fair value changes in trading portfolio investments, net (note 14)	**19,857**	4,375
Bank and other interest income from non-banking and financial business	**745**	1,775
Dividend income from trading portfolio investments	**57**	400
Dividend income from financial asset at fair value through other comprehensive income ("FVOCI") (note 15)	**8,815**	12,262
Gain on disposal of property, plant and equipment	**–**	22
Government subsidies	**3,668**	15,365
Other sundry income	**11,499**	11,073
	44,641	45,272

8. Finance Costs

	Six months ended 30 June	
	2020	2019
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Interests on lease liabilities	**1,758**	2,564
Interests charged on corporate bonds	**–**	14,222
Interests charged on bank borrowings and bank overdrafts	**45,006**	23,748
Margin loan interest	**61**	348
	46,825	40,882

9. (Loss)/Profit Before Income Tax

The Group's (loss)/profit before income tax was arrived at after charging:

	Six months ended 30 June	
	2020	2019
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	**69,000**	66,836
Amortisation of intangible assets	**835**	888

10. Income Tax Expense

	Six months ended 30 June	
	2020	2019
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Current tax for the period		
PRC	**7,602**	26,522
Liechtenstein	**3,756**	13,148
Switzerland	**680**	749
Deferred tax for the period	**(5,657)**	(535)
Total income tax expense	**6,381**	39,884

For both the six months ended 30 June 2020 and 2019, no provision for Hong Kong profits tax has been made as the Group has no assessable profits arising in Hong Kong. The subsidiaries established in the PRC are subject to income taxes at tax rates ranging between 15% and 25% (six months ended 30 June 2019: between 15% and 25%). Overseas tax is calculated at the rates applicable in the respective jurisdictions.

The Group is subject to PRC withholding tax at the rate of 5% or 10% in respect of its PRC sourced income earned, including rental income from properties in PRC and dividend income derived from PRC incorporated company.

11. Dividends

The directors do not recommend the payment of an interim dividend for the period ended 30 June 2020 (six months ended 30 June 2019: Nil).

12. (Loss)/Earnings Per Share

The calculations of the basic and diluted (loss)/earnings per share attributable to owners of the Company are based on the following data:

	Six months ended 30 June	
	2020	2019
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
(Loss)/Profit attributable to owners of the Company for the purpose of calculating basic and diluted (loss)/earnings per share	**(100,846)**	88,608

	Number of shares	
	Six months ended 30 June	
	2020	2019
	'000	'000
	(Unaudited)	(Unaudited)
Weighted average number of shares for the purpose of calculating basic and diluted (loss)/ earnings per share	**4,351,889**	4,351,889

13. Due from Banks and Clients

	30 June 2020	31 December 2019
	HK$'000	HK$'000
	(Unaudited)	(Audited)
Due from clients – mortgage loans	**1,338,410**	1,257,514
Due from clients – other	**784,399**	844,704
Valuation adjustments for default risk	**(4,321)**	(8,968)
Total due from clients	**2,118,488**	2,093,250
Due from banks on a daily basis	**6,149,916**	4,720,429
Due from banks other claims	**205,116**	182,006
Valuation adjustments for default risk	**(2,480)**	(1,237)
Total due from banks	**6,352,552**	4,901,198

14. Trading Portfolio Investments

	30 June 2020 HK$'000 (Unaudited)	31 December 2019 HK$'000 (Audited)
Equity instruments		
Listed equity instruments in Hong Kong at market value	**19,712**	69,042
Listed equity instruments outside Hong Kong at market value	**4,023**	78,307
Total equity instruments	**23,735**	147,349
Debt instruments		
Unlisted debt instruments of financial institutions	**5,481**	27,612
Investment fund units		
Unlisted investments fund units	**61,093**	46,758
Investments in other financial products	**6,265**	6,184
Total trading portfolio investments	**96,574**	227,903

The investments under trading portfolio investments are held for trading purposes.

There is no transfer under the fair value hierarchy classification for the six months ended 30 June 2020 and 2019.

The fair value gain during the period was amounted to HK$19,857,000 (six months ended 30 June 2019: fair value gain of HK$4,375,000), which has been recognised in the condensed consolidated statement of comprehensive income as "other ordinary income and other net gains or losses" (note 7) for six months ended 30 June 2020.

As at 30 June 2020, no listed equity instruments (31 December 2019: HK$109,815,000) have been pledged to secure the margin loan payable.

15. Financial Assets at Fair Value through Other Comprehensive Income

	30 June 2020 HK$'000 (Unaudited)	31 December 2019 HK$'000 (Audited)
Listed equity instruments in Hong Kong (note (a))	**238,005**	282,080
Listed equity instruments outside Hong Kong (note (b))	**114,935**	135,176
Unlisted equity investments	**5,499**	5,605
Total	**358,439**	422,861

Notes:

(a) As at 30 June 2020 and 31 December 2019, the listed equity investments in Hong Kong represented 14.76% equity interest in Min Xin Holdings Limited ("Min Xin Shares"). As at 30 June 2020 and 31 December 2019, the Group held 88,150,000 Min Xin Shares. A dividend income totaling HK$8,815,000 (six months ended 30 June 2019: HK$8,815,000) was recognised by the Group in the condensed consolidated statement of comprehensive income for the six months ended 30 June 2020.

(b) As at 30 June 2020 and 31 December 2019, the listed equity investments outside Hong Kong represented 2.04% equity interest in Citychamp Dartong Company Limited ("Citychamp Dartong Shares") listed in Shanghai Stock Exchange in the PRC. As at 30 June 2020 and 31 December 2019, the Group held 30,389,058 Citychamp Dartong Shares. No dividend income (six months ended 30 June 2019: HK$3,447,000) was recognised by the Group in the condensed consolidated statement of comprehensive income for the six months ended 30 June 2020.

During the six months ended 30 June 2020, the decrease in fair value of financial assets at fair value through other comprehensive income of HK$64,316,000 (six months ended 30 June 2019: HK$74,790,000) has been dealt with in other comprehensive income and FVOCI reserve.

16. Derivative Financial Instruments

	30 June 2020 HK$'000 (Unaudited)	31 December 2019 HK$'000 (Audited)
Derivative financial assets		
Forward and option contracts	**17,794**	10,275
Derivative financial liabilities		
Forward and option contracts	**(9,369)**	(54,788)

16. Derivative Financial Instruments (Continued)

Forward and option contracts arising in banking business

The Group's subsidiaries under the banking business segment act as an intermediary to offer derivative products including interest rate and currency forwards and swap to its customers. These derivative positions are managed through entering back-to-back deals with external parties to ensure the remaining exposures are within acceptable risk levels.

The following tables and notes provide an analysis of the nominal amounts of derivatives and the corresponding fair values as at the year ended date. The nominal amounts of the derivatives indicate the volume of transactions outstanding as at the reporting date; they do not represent amounts at risk.

	30 June 2020		
	Nominal amount HK$'000 (Unaudited)	**Assets HK$'000 (Unaudited)**	**Liabilities HK$'000 (Unaudited)**
Non-hedging instruments – Currency derivatives	**2,254,979**	**17,794**	**(9,369)**

	31 December 2019		
	Nominal amount HK$'000 (Audited)	Assets HK$'000 (Audited)	Liabilities HK$'000 (Audited)
Non-hedging instruments – Currency derivatives	4,531,412	10,275	(54,788)

The remaining term to maturity of derivatives does not represent the Group's intended holding period. Change in the fair value of forward and option contracts arising in banking business has been recognised in the condensed consolidated statement of comprehensive income under "Trading income from banking business".

17. Trade Receivables

	30 June 2020 HK$'000 (Unaudited)	31 December 2019 HK$'000 (Audited)
Trade receivables arising from watches and timepiece businesses (note (a))	**390,832**	474,933
Trade receivables arising from financial business (note (b)):		
– Margin clients	**–**	254
– Cash clients	**–**	2,182
– Clearing house	**2,561**	893
	2,561	3,329
Trade receivables, net	**393,393**	478,262

(a) The Group's trading terms with its customers of watches and timepieces businesses are mainly on credit, except for certain customers, where payment in advance is required. The credit period is generally for a period of one to six months (31 December 2019: one to six months) for major customers. Each customer has a maximum credit limit. The credit term for customers is determined by the management according to industry practice together with consideration of their creditability. Trade receivables are non-interest bearing.

Ageing analysis of trade receivables arising from watches and timepieces businesses as at the reporting dates, based on invoice date, and net of provisions, is as follows:

	30 June 2020 HK$'000 (Unaudited)	31 December 2019 HK$'000 (Audited)
1 to 3 months	**291,185**	343,863
4 to 6 months	**23,355**	44,032
Over 6 months	**76,292**	87,038
	390,832	474,933

As at 30 June 2020, trade receivables of HK$11,570,000 (31 December 2019: HK$13,484,000) have been pledged to secure banking facilities granted to the Group during the period (note 25).

17. Trade Receivables (Continued)

(b) The settlement term of trade receivables arising from the financial business of securities dealing is two business days after trade date ("T+2").

In the opinion of the directors, ageing analysis is not meaningful in view of the business nature of securities dealing.

18. Other Financial Assets at Amortised Cost

	30 June 2020 HK$'000 (Unaudited)	31 December 2019 HK$'000 (Audited)
Listed debt instruments, at amortised cost	**1,347,004**	1,307,960
Issued by:		
Governments and public sector	**82,162**	82,373
Financial institutions	**970,289**	778,199
Corporations	**294,553**	447,388
	1,347,004	1,307,960

19. Inventories

	30 June 2020 HK$'000 (Unaudited)	31 December 2019 HK$'000 (Audited)
Raw materials	**392,274**	480,804
Work-in-progress	**450,531**	460,376
Finished goods and merchandise	**1,307,067**	1,316,786
	2,149,872	2,257,966

20. Property, Plant and Equipment

During the six months ended 30 June 2020, the Group acquired property, plant and equipment of HK$53,628,000 (six months ended 30 June 2019: HK$44,751,000). During the Period, the Group has entered into several leases for offices and shops with right-of-use assets amounted to approximately HK$5,035,000 (six months ended 30 June 2019: 16,267,000) recognized. Property, plant and equipment of HK$3,448,000 were disposed of during the six months ended 30 June 2020 (six months ended 30 June 2019: HK$3,476,000).

As at 30 June 2020, land and buildings in Switzerland with an aggregate carrying amount of HK$87,467,000 (31 December 2019: HK$95,180,000) have been pledged to secure banking facilities granted to the Group (note 25).

21. Investment Properties

As at 30 June 2020, the Group has not obtained the relevant title certificates for investment properties with an aggregate carrying amount of HK$44,650,000 (31 December 2019: HK$44,650,000). The Group's legal advisors have confirmed that the Group is the rightful and equitable owner of these investment properties. The directors are now in process of obtaining the title certificates from the relevant government authorities.

22. Intangible Assets

	Supplier and distribution networks HK$'000	Brand names HK$'000	Trading rights HK$'000	Total HK$'000
Six months ended 30 June 2020 (Unaudited)				
Opening carrying amount	**2,246**	**42,597**	**7,246**	**52,089**
Amortisation	**(800)**	**(35)**	**–**	**(835)**
Exchange realignment	**74**	**517**	**–**	**591**
Closing carrying amount	**1,520**	**43,079**	**7,246**	**51,845**
Year ended 31 December 2019 (Audited)				
Opening carrying amount	3,935	42,129	7,246	53,310
Amortisation	(1,644)	(72)	–	(1,716)
Exchange realignment	(45)	540	–	495
Closing carrying amount	2,246	42,597	7,246	52,089

As at 30 June 2020, intangible assets of HK$44,599,000 (31 December 2019: HK$44,843,000) are attributable to watches and timepieces businesses while intangible assets of HK$7,246,000 (31 December 2019: HK$7,246,000) are attributable to financial business.

23. Goodwill

	30 June 2020 HK$'000 (Unaudited)	31 December 2019 HK$'000 (Audited)
Balance at the beginning of period/year	**1,065,051**	1,071,552
Exchange realignment	**(5,426)**	(6,501)
Balance at the end of period/year	**1,059,625**	1,065,051

As at 30 June 2020, goodwill of HK$806,150,000 (31 December 2019: HK$815,010,000) are attributable to watches and timepieces businesses while goodwill of HK$253,475,000 (31 December 2019: HK$250,041,000) are attributable to banking and financial businesses.

24. Trade Payables

	30 June 2020 HK$'000 (Unaudited)	31 December 2019 HK$'000 (Audited)
Trade payables arising from watches and timepiece businesses (note (a))	**244,845**	304,944
Trade payables arising from financial business (note (b)):		
– Cash clients	**44,809**	101,812
– Margin clients	**10,109**	1,269
– Clearing house	**–**	3,402
	54,918	106,483
Trade payables	**299,763**	411,427

(a) Ageing analysis of trade payables arising from watches and timepieces businesses as at the reporting dates, based on invoice dates, is as follows:

	30 June 2020 HK$'000 (Unaudited)	31 December 2019 HK$'000 (Audited)
1 to 3 months	**145,568**	278,983
4 to 6 months	**18,073**	6,977
Over 6 months	**81,204**	18,984
	244,845	304,944

24. Trade Payables (Continued)

(b) The settlement term of trade payables arising from the financial business of securities dealing is "T+2". Trade payables arising from financial business during the "T+2" period are current whereas those which are outstanding after the "T+2" period are repayable on demand.

In the opinion of the directors, ageing analysis is not meaningful in view of the business nature of securities dealing.

25. Borrowings

	30 June 2020 HK$'000 (Unaudited)	31 December 2019 HK$'000 (Audited)
Bank overdrafts (note 25.1)	**54,261**	48,294
Bank borrowings (note 25.1)	**1,690,729**	1,676,685
Margin loan payable (note 25.2)	**–**	15,383
	1,744,990	1,740,362

25.1 Bank overdrafts and bank borrowings

As at 30 June 2020, the amount of the Group's bank overdrafts and bank borrowings repayable within one year or on demand is HK$1,740,917,000 (31 December 2019: HK$1,724,979,000). The remaining balances are repayable over one year.

Based on the scheduled repayment dates set out in the loan agreements and ignore the effect of any repayment on demand clause. Borrowings are repayable as follows:

	30 June 2020 HK$'000 (Unaudited)	31 December 2019 HK$'000 (Audited)
Borrowings payable:		
Within one year or on demand	**1,740,917**	1,724,979
In the second year	**–**	–
In the third to fifth year	**4,073**	–
After fifth year	**–**	–
	4,073	–
	1,744,990	1,724,979

25. Borrowings (Continued)

25.1 Bank overdrafts and bank borrowings (Continued)

At the reporting date, the Group's borrowings were secured by:

(i) corporate guarantees provided by certain subsidiaries within the Group as at 30 June 2020 and 31 December 2019;

(ii) guarantee provided by the government of certain country as at 30 June 2020;

(iii) entire equity interest of certain subsidiaries within the Group as at 30 June 2020 and 31 December 2019;

(iv) pledged bank deposits of HK$111,763,000 as at 31 December 2019;

(v) a legal charge over certain of the Group's land and buildings with the carrying amounts of HK$87,467,000 (31 December 2019: HK$95,180,000) as at 30 June 2020 (note 20); and

(vi) certain of the Group's trade receivables with the carrying amounts of HK$11,570,000 (31 December 2019: HK$13,484,000) as at 30 June 2020 (note 17).

Certain of bank overdrafts and bank borrowings contain clause which give the banks the right at their sole discretion to demand immediate repayment at any time irrespective of whether the Group has compiled with the covenants and met the scheduled repayment obligations. Borrowings due for repayment after one year which contain a repayment on demand clause and are expected to be settled within one year. The carrying amounts of the bank overdrafts and bank borrowings are approximate to their fair value.

As at 30 June 2020, one of the financial covenants as stipulated in the relevant agreements in respect of borrowings with outstanding principal of approximately HK$917,790,000 was not satisfied. The Company is in the process of the application of waivers as of the date of authorisation of the interim financial information for six months ended 30 June 2020.

25.2 Margin loan payable

There is no margin loan payable as at 30 June 2020. At 31 December 2019, margin loan payable was secured by the Group's trading portfolio investments with the carrying amount of HK$109,815,000 (note 14). The carrying amount of the margin loan payable is approximate to its fair value.

26. Capital Commitments

At the reporting date, the Group had the following outstanding commitments:

	30 June 2020 HK$'000 (Unaudited)	31 December 2019 HK$'000 (Audited)
Contracted, but not provided for:		
– Capital contribution to a property project (note a)	**208,588**	212,652
– Investment in an associate – Citychamp Allied International Limited (note (b))	**270,000**	270,000
	478,588	482,652

Notes:

(a) EBOHR Luxuries International Ltd. ("EBOHR"), a wholly-owned subsidiary of the Company, entered into an agreement with several independent third parties in respect of a property project in the PRC. Pursuant to the agreement, EBOHR agreed to contribute the capital amount up to RMB190,270,000 into the property project.

(b) On 28 September 2016, Union United Investment Limited ("Union United"), a wholly-owned subsidiary of the Company, entered into an agreement with Citychamp Dartong (Hong Kong) Limited ("CD(HK)") and Fengrong Investment (Hong Kong) Company Limited ("FI(HK)"), in relation to the formation of the joint venture company, which was subsequently set up and named Citychamp Allied International Limited ("JV Company") in the British Virgin Island. JV Company shall be owned as to 40% by FI(HK), 30% by CD(HK) and 30% by Union United. JV Company is engaged in potential overseas equity investment. Pursuant to the agreement, Union United agreed to contribute the maximum capital commitment of HK$270,000,000 to JV Company. Details of the transaction are set out in the Company's announcement dated 28 September 2016.

27. Related Party Transactions

27.1 Other than those disclosed elsewhere in the Unaudited Condensed Consolidated Interim Financial Information, the following transactions were carried out with related parties:

(i) Rental income

	Six months ended 30 June	
	2020	2019
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Rental income received	**60**	60

This was received from the executive director, Mr. Shi Tao and this was charged at HK$10,000 (six months ended 30 June 2019: HK$10,000) per month on average. The carrying amount of the Group's investment property which was rented to the executive director as quarter as at 30 June 2020 was HK$27,400,000 (31 December 2019: HK$27,400,000).

(ii) Transactions with an associate, Fair Future Industrial Limited ("Fair Future") and its subsidiaries

	Six months ended 30 June	
	2020	2019
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Sales of goods	**–**	798
Purchases of goods	**10,103**	18,340
Rental expenses	**–**	188

27. Related Party Transactions (Continued)

27.1 **Other than those disclosed elsewhere in the Unaudited Condensed Consolidated Interim Financial Information, the following transactions were carried out with related parties:** (Continued)

(iii) Outstanding balances included in trade receivables, other assets, trade payables and other liabilities

	30 June 2020 HK$'000 (Unaudited)	31 December 2019 HK$'000 (Audited)
Dividend receivable from an associate	**5,000**	5,000
Due from an associate (note (a))	**18,315**	18,315
Trade receivables from associates	**3,847**	3,855
Due from related companies (note (b))	**1,065**	1,065
Due to a shareholder (note (c))	**12,000**	12,000
Trade payables to associates	**38,577**	50,595
Due to directors (note (d))	**17,000**	22,241

Notes:

(a) The balance was unsecured, interest-free and repayable on demand. The maximum outstanding balance of amounts due from associates during the period was HK$18,315,000 (31 December 2019: HK$18,315,000).

(b) The amounts were due from companies of which Mr. Shang Jianguang, Ms. Sit Lai Hei and Mr. Hon Hau Wong, directors of the Company are also the directors of the related companies. The balance was unsecured, interest-free and repayable on demand. The maximum amount outstanding during the period was HK$1,065,000 (31 December 2019: HK$1,065,000).

(c) The balance was unsecured, interest bearing at 5% and repayable on demand.

(d) The balance were unsecured, interest bearing at 5% per annum and repayable within one year.

(iv) Financial guarantee provided to Fair Future

At 30 June 2020, the Group has provided a corporate guarantee of HK$30,000,000 (31 December 2019: HK$30,000,000) in respect of a revolving loan facility of up to HK$30,000,000 (31 December 2019: HK$30,000,000) granted to Fair Future. The corporate guarantee is ending on the expiry of the term of the revolving loan facility.

The above transactions were conducted in accordance with the terms mutually agreed between the Group, and the related companies controlled by the directors.

27. Related Party Transactions (Continued)

27.2 Compensation of key management personnel of the Group:

	Six months ended 30 June	
	2020	2019
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Short-term employee benefits	**6,782**	15,508
Post-employment benefits	**99**	105
	6,881	15,613

28. Transactions with Non-Controlling Interests

(a) Disposal of equity interest in of Ernest Borel Holdings Limited and its subsidiaries (together the "Ernest Borel Group")

In January 2019, the Group has disposed 5,500,000 shares of Ernest Borel Group at HK$1.74 per share with the total consideration of HK$9,570,000.The Group recognised an increase of in non-controlling interests of HK$4,134,000 and an increase in equity attributable to owners of the Company of HK$5,436,000.

In March 2019, the Group has further disposed 58,506,515 shares of Ernest Borel Group at HK$1.74 per share with the total consideration of HK$101,802,000. The Group recognised an increase of in non-controlling interests of HK$43,309,000 and an increase in equity attributable to owners of the Company of HK$58,493,000.

(b) Deemed acquisition of additional interest in Bendura Bank AG and its subsidiaries (the "Bendura Group")

During the period ended 30 June 2020, Bendura Bank AG ("Bendura Bank") repurchased its 500 equity share at cash consideration of CHF371,000 (equivalent to HK$2,979,000). Following the repurchase, the Company's effective equity interest in Bendura group increased by 0.22% and the Company effectively hold 85.43% equity interest of Bendura Group. The Group recognised a decrease of in non-controlling interests of HK$2,130,000 and a decrease in equity attributable to owners of the Company of HK$849,000.

29. Disposal of a subsidiary

On 4 May 2020, the Group redeemed 3,840 shares of Metasequoria Investment Fund SPC – Global Opportunities Fund SP for USD5,907,000 (equivalents to HK$45,794,000). Gain on disposal of HK$405,000 has been recognised in the condensed consolidated statements of comprehensive income for the six months ended 30 June 2020.

30. Fair Value Measurements of Financial Instruments

The fair values of the Group's financial assets and financial liabilities are determined as follows:

- the fair values of listed equity investments, precious metal and debt instruments classified under due from banks, trading portfolio investments, financial asset at fair value through other comprehensive income and due to clients – precious metal are determined by reference to their quoted market prices at the reporting date in active markets and have been translated using the spot foreign currency rates at the end of the reporting periods where appropriate.

- the fair value of certain equity investments under financial assets at fair value through other comprehensive income is determined based on the fair value of their underlying net assets.

- the fair values of unlisted debt instruments classified under trading portfolio investments have been determined using significant inputs, which are market observable, directly or indirectly.

- the fair values of derivative financial assets and liabilities are marked to market using the foreign exchange forward rates ruling at the end of each reporting periods.

- the fair value of unlisted investment in insurance policy is determined based on amount value as stated in cash surrender value statement issued by insurer.

- the fair value of unlisted financial product investments is determined based on the latest transaction price.

The following table provides an analysis of financial assets and financial liabilities carried at fair value by level of fair value hierarchy.

Level 1: unadjusted quoted prices in active markets for identical assets and liabilities;

Level 2: observable direct and indirect inputs other than quoted prices included within Level 1; and

Level 3: unobservable inputs are inputs for which market data are not available.

30. Fair Value Measurements of Financial Instruments (Continued)

	30 June 2020			
	Level 1 HK$'000 (Unaudited)	Level 2 HK$'000 (Unaudited)	Level 3 HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
Assets				
Due from banks – precious metal	–	141,438	–	141,438
Trading portfolio investments	23,734	26,215	46,625	96,574
Derivative financial assets	–	17,794	–	17,794
Financial assets at fair value through other comprehensive income	352,940	5,499	–	358,439
	376,674	190,946	46,625	614,245
Liabilities				
Due to clients – precious metal	–	141,307	–	141,307
Derivative financial liabilities	–	9,369	–	9,369
	–	150,676	–	150,676

	31 December 2019			
	Level 1 HK$'000 (Audited)	Level 2 HK$'000 (Audited)	Level 3 HK$'000 (Audited)	Total HK$'000 (Audited)
Assets				
Due from banks – precious metal	–	56,935	–	56,935
Trading portfolio investments	147,349	33,796	46,758	227,903
Derivative financial assets	–	10,275	–	10,275
Financial assets at fair value through other comprehensive income	417,256	5,605	–	422,861
	564,605	106,611	46,758	717,974
Liabilities				
Due to clients – precious metal	–	56,762	–	56,762
Derivative financial liabilities	–	54,788	–	54,788
	–	111,550	–	111,550

There have been no significant transfers between Levels 1 and 2 in the reporting period.

The level in the fair value hierarchy within which the financial assets and financial liabilities are categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting periods.