HENGDELI HOLDINGS LIMITED
亨得利控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 3389)

2016 INTERIM RESULTS

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		
	2016	2015	YoY change
	RMB'000	*RMB'000*	
	(Unaudited)	(Unaudited)	(%)
Revenue	**5,883,698**	6,753,944	-12.9
Gross profit margin	**27.2%**	30.5%	-330bps
Profit attributable to shareholders	**90,186**	255,150	-64.7

INTERIM RESULTS

The board of directors (the "Board") of Hengdeli Holdings Limited (the "Company") is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2016, along with the comparative figures and selected explanatory notes, which are prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and have been reviewed by the Audit Committee of the Company.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2016 – unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2016	2015
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**5,883,698**	6,753,944
Cost of sales		**(4,284,958)**	(4,693,152)
Gross profit	*3*	**1,598,740**	2,060,792
Other revenue	*4*	**81,328**	69,896
Other net (loss)/income	*4*	**(18,488)**	509
Distribution costs		**(1,188,826)**	(1,476,817)
Administrative expenses		**(163,092)**	(155,428)
Profit from operations		**309,662**	498,952
Finance costs	*5(a)*	**(103,518)**	(103,252)
Share of profits of joint ventures		**334**	686
Profit before taxation	*5*	**206,478**	396,386
Income tax	*6*	**(85,757)**	(112,697)
Profit for the period		**120,721**	283,689
Attributable to:			
Equity shareholders of the Company		**90,186**	255,150
Non-controlling interests		**30,535**	28,539
Profit for the period		**120,721**	283,689
Earnings per share	*7*		
Basic		**RMB0.019**	RMB0.053
Diluted		**RMB0.019**	RMB0.053

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2016 – unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2016	2015
	Note	***RMB'000***	*RMB'000*
Profit for the period		**120,721**	283,689
Other comprehensive income for the period:			
Items that may be reclassified subsequently to profit or loss:			
Net gain recognised from the remeasurement of investment in equity securities	*9*	**91,395**	4,666
Exchange differences on translation of overseas companies' financial statements		**(4,602)**	11,043
Total comprehensive income for the period		**207,514**	299,398
Attributable to:			
Equity shareholders of the Company		**176,979**	270,859
Non-controlling interests		**30,535**	28,539
Total comprehensive income for the period		**207,514**	299,398

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2016 – unaudited
(Expressed in Renminbi)

		At 30 June 2016		At 31 December 2015	
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Investment property			**38,304**		39,298
Other property, plant and equipment	*8*		**1,428,762**		1,465,261
			1,467,066		1,504,559
Intangible assets			**74,975**		79,756
Goodwill			**770,222**		770,222
Interest in joint ventures			**58,636**		58,200
Other investments	*9*		**156,170**		63,487
Deferred tax assets			**119,844**		106,638
			2,646,913		2,582,862
Current assets					
Inventories	*10*	**6,086,960**		6,376,350	
Trade and other receivables	*11*	**1,438,714**		1,329,175	
Cash and cash equivalents	*12*	**2,103,027**		1,910,351	
		9,628,701		9,615,876	
Current liabilities					
Trade and other payables	*13*	**1,346,803**		1,962,269	
Bank loans	*14*	**2,218,788**		704,374	
Current taxation		**40,316**		20,778	
		3,605,907		2,687,421	
Net current assets			**6,022,794**		6,928,455
Total assets less current liabilities			**8,669,707**		9,511,317

		At 30 June 2016		At 31 December 2015	
	Note	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*
Non-current liabilities					
Bank loans	*14*	**387,376**		552,468	
Long-term payables		**22,380**		24,351	
Senior notes	*15*	**1,430,579**		2,288,436	
Deferred tax liabilities		**87,424**		105,705	
			1,927,759		2,970,960
NET ASSETS			**6,741,948**		6,540,357
CAPITAL AND RESERVES					
Share capital			**22,841**		22,841
Reserves			**6,089,210**		5,907,946
Total equity attributable to equity shareholders of the Company			**6,112,051**		5,930,787
Non-controlling interests			**629,897**		609,570
TOTAL EQUITY			**6,741,948**		6,540,357

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
for the six months ended 30 June 2016 – unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2016	2015
	Note	***RMB'000***	*RMB'000*
Operating activities			
Cash (used in)/generated from operations		**(38,109)**	58,021
Income tax paid		**(92,483)**	(95,355)
Net cash used in operating activities		**(130,592)**	(37,334)
Investing activities			
Payment for the purchase of property, plant and equipment		**(29,183)**	(83,582)
Other cash flows arising from investing activities		**34,614**	49,823
Net cash generated from/(used in) investing activities		**5,431**	(33,759)
Financing activities			
Dividends paid to equity shareholders of the Company		**–**	(153,100)
Redemption of senior notes	*15*	**(916,112)**	–
Other cash flows arising from financing activities		**1,221,790**	(147,205)
Net cash generated from/(used in) financing activities		**305,678**	(300,305)
Net increase/(decrease) in cash and cash equivalents		**180,517**	(371,398)
Cash and cash equivalents at 1 January	*12*	**1,910,351**	1,968,065
Effect of foreign exchange rates changes		**12,159**	(830)
Cash and cash equivalents at 30 June	*12*	**2,103,027**	1,595,837

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorised for issue on 18 August 2016.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2015 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the financial year ended 31 December 2015 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2015 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 17 March 2016.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company.

- Annual Improvements to HKFRSs 2012-2014 Cycle
- Amendments to HKAS 1, Presentation of financial statements: Disclosure initiative

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography (mainly in Mainland China, Hong Kong and Taiwan). In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purpose of resource allocation and performance assessment, the Group has presented the following five reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Retail segments (includes three segments for watches retail in Mainland China, Taiwan and Hong Kong and one segment ("Harvest Max") for jewellery and watches retail in Hong Kong): given the importance of the retail division to the Group, the Group's retail business is segregated further into four reportable segments on a geographical and products and services basis, as the divisional managers for each of these regions report directly to the senior executive team. All segments primarily derive their retail revenue through their own retail network.

- Wholesale segment: this segment distributes numerous world renowned brand watches in Mainland China and Hong Kong.

(a) Information about profit or loss and assets

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the profit or loss and assets attributable to each reportable segment on the following basis:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. However, other than reporting inter-segment sales, assistance provided by one segment to another, including sharing of assets, is not measured.

The measure used for reporting segment profit is "gross profit".

Segment assets represent inventories only, without eliminating the unrealised inter-segment profits.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	Retail													
	Mainland China		Hong Kong		Taiwan		Harvest Max		Wholesale		All others		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
For the six months ended 30 June														
Revenue from external customers	**2,770,126**	3,094,219	**805,229**	954,399	**75,737**	77,324	**442,594**	808,380	**1,523,766**	1,576,776	**266,246**	242,846	**5,883,698**	6,753,944
Inter-segment revenue	**–**	–	**–**	–	**–**	–	**–**	–	**2,121,712**	1,999,369	**13,145**	16,318	**2,134,857**	2,015,687
Reportable segment revenue	**2,770,126**	3,094,219	**805,229**	954,399	**75,737**	77,324	**442,594**	808,380	**3,645,478**	3,576,145	**279,391**	259,164	**8,018,555**	8,769,631
Reportable segment gross profit	**811,372**	923,110	**138,138**	201,980	**20,591**	19,166	**384,798**	651,239	**174,182**	194,029	**69,659**	71,268	**1,598,740**	2,060,792

	Retail													
	Mainland China		Hong Kong		Taiwan		Harvest Max		Wholesale		All others		Total	
	30 June 2016	31 December 2015	**30 June 2016**	31 December 2015	**30 June 2016**	31 December 2015	**30 June 2016**	31 December 2015	**30 June 2016**	31 December 2015	**30 June 2016**	31 December 2015	**30 June 2016**	31 December 2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Reportable segment assets	**2,727,782**	2,897,438	**1,400,570**	1,451,378	**180,760**	180,223	**95,412**	103,720	**1,582,553**	1,646,956	**145,833**	136,912	**6,132,910**	6,416,627

Results and assets of the segment below the quantitative thresholds ("All others") are mainly attributable to a watch accessories manufacture business and a watch repairing and maintenance business.

(b) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Revenue		
Total revenues for reportable segments	**7,739,164**	8,510,467
Other revenue	**279,391**	259,164
Elimination of inter-segment revenue	**(2,134,857)**	(2,015,687)
Consolidated revenue	**5,883,698**	6,753,944
Profit		
Total gross profit for reportable segments	**1,529,081**	1,989,524
Other profit	**69,659**	71,268
	1,598,740	2,060,792
Other revenue	**81,328**	69,896
Other net (loss)/income	**(18,488)**	509
Distribution costs	**(1,188,826)**	(1,476,817)
Administrative expenses	**(163,092)**	(155,428)
Finance costs	**(103,518)**	(103,252)
Share of profits of joint ventures	**334**	686
Consolidated profit before taxation	**206,478**	396,386

4 OTHER REVENUE AND NET (LOSS)/INCOME

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Other revenue		
Interest income	**9,977**	7,200
Government grants	**28,287**	23,028
Dividend income from unlisted investments	**25,554**	25,443
Rental income	**5,890**	5,017
Others	**11,620**	9,208
	81,328	69,896
Other net (loss)/income		
Net gain on disposal of property, plant and equipment	**118**	42
Net foreign exchange (loss)/gain	**(2,097)**	467
Net loss on redemption of senior notes *(note 15)*	**(16,509)**	–
	(18,488)	509

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June 2016 RMB'000	2015 RMB'000
(a) Finance costs		
Interest expense on bank loans	**24,421**	22,606
Interest on convertible bonds	**–**	1,673
Interest on senior notes *(note 15)*	**73,684**	70,267
Bank charges	**5,413**	8,706
	103,518	103,252
(b) Other items		
Amortisation	**6,012**	5,716
Depreciation	**69,502**	74,784
Operating lease charges in respect of properties		
– minimum lease payments	**142,365**	144,755
– contingent rents	**217,934**	250,304
	360,299	395,059

6 INCOME TAX

	Six months ended 30 June 2016 RMB'000	2015 RMB'000
Current tax		
Hong Kong profits tax	**12,458**	18,514
Mainland China income tax	**80,821**	94,964
Taiwan and Macau income tax	**21**	76
Sub-total	**93,300**	113,554
Deferred taxation	**(7,543)**	(857)
	85,757	112,697

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2015: 16.5%) to the six months ended 30 June 2016.

Taxation for other overseas subsidiaries is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries or jurisdictions.

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB90,186,000 (six months ended 30 June 2015: RMB255,150,000) and the weighted average of 4,774,215,574 ordinary shares (six months ended 30 June 2015: 4,784,882,738 ordinary shares) in issue during the interim period.

(b) Diluted earnings per share

The calculation of diluted earnings per share amount for the six months ended 30 June 2016 is based on the profit attributable to equity shareholders of the Company of RMB90,186,000 (six months ended 30 June 2015: RMB255,150,000) and the weighted average number of ordinary shares outstanding of 4,774,215,574 shares (six months ended 30 June 2015: 4,784,882,738).

The calculation of diluted earnings per share amount for the six months ended 30 June 2016 and 2015 has not included the potential effects of the deemed issue of shares under the Company's shares option scheme for nil consideration into ordinary shares as it has anti-dilutive effect on the basic earnings per share amount during the year.

8 OTHER PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the Group incurred decoration and construction costs with a total amount of RMB30,135,000 (six months ended 30 June 2015: RMB49,010,000).

9 OTHER INVESTMENTS

	At 30 June 2016 *RMB'000*	At 31 December 2015 *RMB'000*
Listed investment in equity securities	**153,846**	61,163
Unlisted investment, at cost	**2,324**	2,324
	156,170	63,487

During the first half of 2016, the fair value of listed investment in equity securities increased by RMB91,395,000, amount of which is determined based on the share prices of the available-for-sale securities and recognised as a credit to other comprehensive income.

10 INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	At 30 June 2016 *RMB'000*	At 31 December 2015 *RMB'000*
Raw materials	**47,562**	45,675
Work in progress	**41,968**	36,483
Finished goods	**5,997,430**	6,294,192
	6,086,960	6,376,350

11 TRADE AND OTHER RECEIVABLES

As of the end of the reporting period, the ageing analysis of trade debtors (which are included in trade and other receivables), based on the due date and net of allowance for doubtful debts, is as follows:

	At 30 June 2016 *RMB'000*	At 31 December 2015 *RMB'000*
Current	**797,723**	843,761
Less than 1 month past due	**162,339**	95,863
1 to 3 months past due	**7,461**	12,763
More than 3 months but less than 12 months past due	**12,956**	4,367
More than 12 months past due	**988**	2,080
Trade debtors, net of allowance for doubtful debts	**981,467**	958,834
Prepayments and other receivables	**457,247**	370,341
	1,438,714	1,329,175

All of the trade and other receivables are expected to be recovered within one year.

Trade receivables are due within 30 to 90 days from the date of billing.

12 CASH AND CASH EQUIVALENTS

As at 31 December 2015 and 30 June 2016, all of the Group's cash and cash equivalents in the consolidated statement of financial position represented cash at bank and cash in hand.

13 TRADE AND OTHER PAYABLES

As of the end of the reporting period, the ageing analysis of trade creditors (which are included in trade and other payables), based on the invoice date, is as follows:

	At 30 June 2016 *RMB'000*	At 31 December 2015 *RMB'000*
Within 1 month	**458,344**	890,850
Over 1 month but less than 3 months	**481,084**	627,792
Over 3 months but less than 12 months	**34,069**	12,778
Over 1 year	**12,118**	12,934
	985,615	1,544,354
Other payables and accrued expenses	**302,624**	342,188
Advance receipts from customers	**58,564**	75,727
	1,346,803	1,962,269

14 BANK LOANS

	At 30 June 2016 *RMB'000*	At 31 December 2015 *RMB'000*
Bank loans repayable within one year or on demand		
– Secured	**519**	487
– Unsecured	**2,218,269**	703,887
	2,218,788	704,374
Bank loans repayable after one year		
– Secured	**4,470**	4,547
– Unsecured	**382,906**	547,921
	387,376	552,468
	2,606,164	1,256,842

At 30 June 2016, the banking facilities of certain subsidiaries were secured by mortgages over their land and buildings with an aggregate carrying value of RMB10,666,000 (31 December 2015: RMB10,253,000).

15 SENIOR NOTES

In January 2013, the Company issued 6.25% senior notes due in 2018 in the aggregate principal amount of United States Dollars ("USD") 350,000,000 ("the Notes"), which are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Notes are interest-bearing at 6.25% per annum and payable semi-annually in arrears. The Notes will mature on 29 January 2018, unless redeemed earlier in accordance with the terms of the Notes.

The movement of the Notes is set out below:

	RMB'000
As at 31 December 2015	2,288,436
Interest charged during the period *(note 5(a))*	73,684
Interest paid	(70,464)
Derecognised due to repurchase by the Company during the period	(47,108)
Derecognised due to redemption by the Company during the period	(863,166)
Foreign exchange loss	1,761
Foreign currency translation difference	47,436
As at 30 June 2016	**1,430,579**

In January, March and April 2016, the Group repurchased, by way of market acquisition, notes with a principal amount of USD7,200,000, for a total consideration of USD7,065,000 (RMB equivalent: 46,337,000).

In June 2016, the Group redeemed notes with a principal amount of USD127,372,000, for a total consideration of USD132,619,000 (RMB equivalent: 869,775,000).

The difference between the carrying amount of senior notes redeemed and the consideration paid, net off against the transaction costs incurred, was recognised as a loss of RMB16,509,000 on redemption of senior notes in the Group's consolidated statement of profit or loss.

16 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

(i) No interim dividend has been declared after the interim period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the interim period, are as follows:

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved during the interim period, of RMB nil per share (six months ended 30 June 2015: RMB0.032 per share)	**–**	153,100

(b) Equity settled share-based transactions

No share option was exercised during the six months ended 30 June 2016 (2015: Nil).

(c) Shares granted under share award scheme

Pursuant to a share award scheme approved by the Board in 2015, the Company may purchase its own shares and grant such shares to certain employees or consultants of the Group. For the six months ended 30 June 2016, the Company granted 6,252,000 shares at nil consideration to the Group's employees.

The consideration paid for the purchase of the Company's shares is reflected as a decrease in the capital reserve of the Company. The fair value of the employee services received in exchange for the grant of shares is recognised as staff costs in profit or loss with a corresponding increase in capital reserve, which is measured based on the grant date share price of the Company.

17 CAPITAL COMMITMENTS

	At 30 June	At 31 December
	2016	2015
	RMB'000	*RMB'000*
Authorised but not contracted for	**45,600**	2,739

18 RELATED PARTY TRANSACTIONS

The Group has transactions with joint ventures, which are jointly held by the Group and the Swatch Group (Hong Kong) Limited, and companies controlled by associates. The following is a summary of principal related party transactions carried out by the Group with the above related parties for the periods presented.

Recurring transactions

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Lease expense to a joint venture	**3,055**	3,000
Payments made on behalf of joint ventures	**3,969**	3,887
Payments made by joint ventures	**2,429**	–

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2016, amid increasing global political and financial uncertainties, the recovery of economy fell far behind expectation. Having stepped into a new normal phase after years of rapid growth, China's economy is still facing significant downward pressure. Confronted with various risks and challenges, the Group, adhering to its principle of "maintaining healthy and stable growth through practical innovation", strove to maintain its traditional business, while proactively optimised its business structure and fostered new growth drivers, through which the interests of shareholders have been safeguarded by recording sound operating results.

I. Financial Review

Revenue

As at 30 June 2016, the Group recorded revenue of RMB5,883,698,000 (six months ended 30 June 2015: RMB6,753,944,000), representing a year-on-year decrease of 12.9%. Retail sales amounted to RMB4,093,686,000 (six months ended 30 June 2015: RMB4,934,322,000), representing a year-on-year decrease of 17.0%.

In the first half of 2016, following the trend of 2015, China was still adapting to the change of development model and economic restructuring with its economic growth slowing down. Moreover, the consumers' shopping locations and consumption patterns have also been changing constantly. The overall operating environment was quite challenging and had a large negative impact on the business development of the Group. Despite the weak sales in the watch market, especially the watch market in Hong Kong, the Group's watch accessories segment achieved a growth in its sales due to a series of reform and innovation.

Sales breakdown :
(for the six months ended 30 June)

	2016		2015	
	RMB'000	***%***	*RMB'000*	*%*
Retail Business				
Mainland China	**2,770,126**	**47.1**	3,094,219	45.8
Hong Kong	**805,229**	**13.7**	954,399	14.1
Taiwan	**75,737**	**1.3**	77,324	1.1
Harvest Max	**442,594**	**7.5**	808,380	12.0
Wholesale Business	**1,523,766**	**25.9**	1,576,776	23.4
Watch accessories manufacturing, customer service and others	**266,246**	**4.5**	242,846	3.6
Total	**5,883,698**	**100**	6,753,944	100

Gross profit and gross profit margin

As at 30 June 2016, the Group's gross profit amounted to approximately RMB1,598,740,000 (six months ended 30 June 2015: RMB2,060,792,000), representing a year-on-year decrease of 22.4%. Gross profit margin was approximately 27.2% (six months ended 30 June 2015: 30.5%), representing a year-on-year decrease of 330bps. The decreases were mainly due to the increased flexibility of sales discounts resulted from the fierce market competition and subdued market environment.

Profit for the period

During the period under review, the Group's net profit amounted to RMB120,721,000 (six months ended 30 June 2015: RMB283,689,000), representing a year-on-year decrease of 57.4%. Profit attributable to equity shareholders amounted to RMB90,186,000 (six months ended 30 June 2015: RMB255,150,000), representing a year-on-year decrease of 64.7%. Decrease in the profit was mainly due to the drop in sales and gross profit margin, as well as the net losses recognised by the Group due to repurchases of senior notes issued by the Company during the period under review.

Financial status and net debt to equity ratio

The Group maintained a sound and stable financial position.

As at 30 June 2016, the Group had total equity of RMB6,741,948,000 (at 31 December 2015: RMB6,540,357,000) and net current assets of RMB6,022,794,000 (at 31 December 2015: RMB6,928,455,000), with cash and cash equivalents of RMB2,103,027,000 (at 31 December 2015: RMB1,910,351,000) and total bank loans of RMB2,606,164,000 (at 31 December 2015: RMB1,256,842,000).

As at 30 June 2016, bank loans amounting to RMB887,664,000 (at 31 December 2015: RMB140,607,000) bore interests at fixed rates ranging from 1.68% to 4.57% (at 31 December 2015: 2.10% to 6.44%), and the remaining bank loans bore interests at floating rates ranging from HIBOR + 1.95% to LIBOR + 2.28% (at 31 December 2015: HIBOR + 1.25% to 2.52%). As at 30 June 2016, approximately 33% (at 31 December 2015: 8%), 30% (at 31 December 2015: 86%), 35% (at 31 December 2015: 2%) and 2% (at 31 December 2015: 4%) of bank loans were denominated in RMB, HKD, USD and NTD, respectively. The maturity profile of bank loans is set out in note 14 to the financial statements.

During the period under review, there was no sign of significant changes in the Group's demand for loans in a particular quarter.

As at 30 June 2016, the aggregate principal amount of the USD-settled senior notes due in 2018 of the Company was approximately USD210 million (2015: USD350 million, of which principal amount of USD4,000,000 had been repurchased but had not been cancelled), of which principal amount of USD7,200,000 had been repurchased but had not been cancelled, and aggregate principal amount of approximately USD127 million had been repurchased by making an offer and had been cancelled during the period under review. Combining the net amount of the senior notes with bank loans, the Group's total debt amounted to RMB4,036,743,000 (at 31 December 2015: RMB3,545,278,000). The net debt to equity ratio of the Group was approximately 28.7% (at 31 December 2015: 25.0%). The Directors of the Company believe that the net debt to equity ratio remains within a healthy and manageable range.

The Group adopts prudent treasury policies in financial and cash management, managing bank credit availability and monitoring risks of credit cost centrally in various ways. The Group maintains a good partnership with a number of banks which provide facilities, and reviews their funding liquidity and financing requirements regularly.

Foreign exchange risk

The Group's transactions are mainly denominated in RMB, HKD and USD. During the period under review, the foreign exchange movements of such currencies were managed properly. Accordingly, the Group was not exposed to significant risks associated with foreign exchange fluctuations.

The Group has not entered into foreign exchange hedging arrangements to manage foreign exchange risk but has been actively monitoring its foreign exchange risk.

Pledge of assets

As at 30 June 2016, the Group had land and buildings equivalent to RMB10,666,000 (at 31 December 2015: RMB10,253,000) pledged as security for mortgage.

Contingent liabilities

As at 30 June 2016, the Group had no material contingent liabilities (at 31 December 2015: nil).

Current assets

As at 30 June 2016, the current assets of the Group amounted to approximately RMB9,628,701,000 (at 31 December 2015: RMB9,615,876,000), comprising inventories of approximately RMB6,086,960,000 (at 31 December 2015: RMB6,376,350,000), trade and other receivables of approximately RMB1,438,714,000 (at 31 December 2015: RMB1,329,175,000), cash and cash equivalents of approximately RMB2,103,027,000 (at 31 December 2015: RMB1,910,351,000).

As at 30 June 2016, cash and cash equivalents of approximately 63% (at 31 December 2015: 80%), 36% (at 31 December 2015: 19%) and 1% (at 31 December 2015: 1%) were denominated in RMB, HKD and other currencies, respectively.

Current liabilities

As at 30 June 2016, the current liabilities of the Group amounted to approximately RMB3,605,907,000 (at 31 December 2015: RMB2,687,421,000), comprising bank loans of approximately RMB2,218,788,000 (at 31 December 2015: RMB704,374,000), trade and other payables of approximately RMB1,346,803,000 (at 31 December 2015: RMB1,962,269,000), and current tax payable of approximately RMB40,316,000 (at 31 December 2015: RMB20,778,000).

Capital structure

The Company's capital structure is composed of issued share capital, reserves and accumulated profits. As at 30 June 2016, the issued share capital of the Company was 4,779,810,959 shares (at 31 December 2015: 4,779,810,959 shares), with reserves and accumulated profits of RMB6,089,210,000 (at 31 December 2015: RMB5,907,946,000) in total.

Material investment, acquisition and disposal

Save as disclosed in the notes to the financial statements, there was no material acquisition or disposal of subsidiaries, associates and joint ventures during the period under review.

Save as disclosed in the notes to the financial statements, there was no other significant investment held by the Company during the period under review.

Dividends

The Board does not recommend the payment of any interim dividend for the period ended 30 June 2016.

II. Business Review

During the period under review, the Group's business primarily focused on the retail and distribution of internationally renowned branded watches, comprehensive related customer services and maintenance, watch accessories manufacturing and e-commerce in the Greater China region with a core presence in Mainland China and Hong Kong.

Retail Network

The Group's retail network spanned across the Greater China region where retail stores mainly included "Prime Time"/"Hengdeli", "Elegant", and certain single-brand boutiques. "Prime Time"/"Hengdeli" is mainly located in Mainland China and Taiwan, selling mid-end and mid-to-high-end internationally renowned brands, while "Elegant" is mainly located in Hong Kong, selling high-end internationally renowned brands. During the period under review, after adjustments and optimization, the Group operated a total of 470 retail outlets in Mainland China, Hong Kong, Macau and Taiwan as at 30 June 2016, as detailed below:

	As at 30 June 2016			
	Mainland China	**Hong Kong and Macau**	**Taiwan**	**Total**
Prime Time/Hengdeli	353	4	33	390
Elegant	13	5	1	19
Brand boutiques	31	12	18	61
Total	397	21	52	470

As a pacesetter in the retail sales of internationally renowned watch brands in the world, the Group has maintained sound business relationships with many world-renowned brand watch suppliers over the years, including SWATCH Group, LVMH Group, RICHEMONT Group, ROLEX Group and KERING Group, etc. As at 30 June 2016, the Group was engaged in the distribution of over 50 international brands from the above five major brand suppliers and other independent watchmakers, including Breguet, Bulgari, Cartier, Girard-Perregaux, Harry Winston, IWC, Jaeger-LeCoultre, Longines, Mido, Omega, Parmigiani Fleurier, Rolex, Tissot, Vacheron-Constantin, Zenith, etc. During the period under review, the Group continued to step up its efforts in aligning mid-end and mid-to-high-end brands in both Mainland China and Hong Kong to enhance its brand portfolio, paving the way for long-term business development and stabilizing overall sales performance.

Overall speaking, the business environment in the first half of 2016 was similar to that of the year of 2015 in terms of sales of renowned watches. Under an "L" market trend, the shopping locations and consumption patterns of Mainland China consumers have become increasingly diversified and the growth pattern and momentum of the jewelry and watch industry has plunged into deep adjustment. Businesses were faced with loss of customers and rise of labor cost. All of the above aggravated the harsh sales environment generally in the Greater China region. Against such a backdrop, the Group placed emphasis on refinement of business management and promotion of operating efficiency. During the period under review, the Group continued to take measures such as making structural adjustment, optimising inventory and strengthening operations, and at the same time bolstered its scientific management in order to promote a more comprehensive competitiveness which in turn helped secure steady sales. The overall sales was still within reasonable range despite slowing down.

Mainland China

The Group has developed a comprehensive and fully-fledged network of retail outlets in Mainland China, with a broad presence in key regions including Beijing, Shanghai, Zhejiang, Jiangsu, Henan, Shanxi, Hubei, Northeastern and Southwestern China where its market share has been concentrated and stable. Meanwhile, the Group's market shares in Central, Southern and Northwestern China as well as other regions are on the rise, thus improving our market position in those regions.

The retail outlet "Prime Time" has been positioned to sell mid-end and mid-to-high-end internationally renowned branded watches in Mainland China. This marketing strategy is mainly designed to cater for the actual demand of Mainland consumers and complement the Group's high-end watch business strategy in Hong Kong. As at 30 June 2016, the Group had 397 retail outlets in Mainland China, including 353 "Prime Time" shops. The Group's "Elegant" shops, which are mainly image stores and sell high-end watches, have a relatively small coverage in Mainland China. Most of the 13 "Elegant" shops are located in first-tier developed cities such as Shanghai, Beijing, Hangzhou, Nanjing, Shenyang and Chengdu, with no new shop has been opened during the period under review.

During the period under review, the Group's operating strategy continued to take effect since operating environment in Mainland China did not incur major changes compared to that of last year. The strategy involved a core operational principle of "maintaining steady sales and profit, and promoting inventory structure enhancement in full swing", and the retail region management structure adjustment aimed at "leanness, professionalism and efficiency" was further expedited. The Group kept pace with the market adjustment to integrate retail outlets and furthered its refined management for better performance of individual outlets; and continued to step up its efforts in streamlining outlets in the first-tier market and high-end watch retail market, and reasonably adjusted its brand portfolio and enhanced its inventory structure in response to the changing market conditions in a timely manner; the Group also enhanced the sales skills of frontline staff and improved customer management at outlets.

As the shopping locations and consumption patterns of consumers have been changing, consumption motivation has shifted from business related purpose to personal use and consumers have become more price sensitive than ever. The pressure on prices due to the availability of overseas surrogate shopping, electronic platform and other channels has led to exceptionally fierce market competition. Meanwhile, given the relatively favourable performance achieved in the first half of last year, despite the Group's various efforts, we were unable to stem the decline in sales as affected by the adverse macro condition and subdued consumer demand. Retail sales from Mainland China decreased by 10.5% as compared with that of the previous year. However, the Group's inventory turnover, account receivables and other indicators remained stable as a result of effective operation strategies and enhanced management skills. Besides, the comprehensive launch of an integrated system consisting of interactive platforms such as O2O, CRM system, WeChat and Weibo facilitated the sales by ways of guiding the flows of people to shop online. At the end of 2015, "censh.com" was comprehensively put online. Since then and till 30 June 2016, approximately 200 outlets of the Group have adopted the booking for try-on service system of "censh.com" and the sales from the booking for try-on service and the total number of the service orders have increased rapidly. These have helped stabilize the Group's market share in Mainland China and paved the way to sustainable growth in the mid-to-long-term.

The new normal phase with accelerating urbanization process and burgeoning middle class in Mainland China have provided a favourable precondition for a sound growth momentum of the mid-end brands. Therefore, the sales strategy of targeting at mid-end and mid-to-high-end internationally renowned branded watches will still be the major direction of the Group in Mainland China in the short-to-mid-term in the foreseeable future.

Hong Kong

The Group's retail business in Hong Kong mainly focuses on high-end brands, including Blancpain, Breguet, Bulgari, Cartier, Chopard, Dewitt, Franck Muller, Girard-Perregaux, Harry Winston, IWC, Jaeger-LeCoultre, Omega, Panerai, Parmigiani Fleurier, Piaget, Vacheron-Constantin, Zenith, etc. The sales of such high-end brands fully complemented our retail business in Mainland China and Taiwan, thus creating good synergy. To adapt to the change in the mix and consumption patterns of visitors in recent years, the Group also started to deploy multi-layer brand positioning in Hong Kong, introducing certain mid-end brands in order to expand market share and maintain its leading position in Hong Kong.

As at 30 June 2016, Elegant operated a total of 17 retail outlets in Hong Kong, of which 5 were multi-brand "Elegant" shops and the rest were single-brand boutiques or image stores. Currently, the shops operated by the Group in Hong Kong are mainly located in prime commercial districts such as Tsim Sha Tsui, Central, Causeway Bay and Shatin.

As compared with last year, the operating environment in Hong Kong did not incur major changes. Amidst the macro economic constraints, Hong Kong's retail sector was still lackluster during the period under review, as witnessed by continued weakness of consumer demand for high-end brands. According to the Census and Statistics Department of Hong Kong, Hong Kong has experienced a decrease in its retail sales for consecutive 15 months, during which high-end consumer goods, such as timepieces, jewelry and precious gifts, performed the weakest. Under the dismal overall conditions, sales of Elegant decreased by 15.6% as compared with that of the previous year. In addition, as operation costs such as rental expenses had not followed the market with significant changes, profit has also decreased. However, sales of Elegant was still promising with the Group's extensive, solid and loyal client base in Hong Kong, the interaction between retail outlets in Mainland China and Hong Kong, the favorable cooperation with brand suppliers, as well as the comprehensive after-sale service network across the Greater China region which provided assured after-sale warranty for Mainland tourists shopping in Hong Kong.

Elegant focused on refined management during the period under review, including merging of single-brand boutiques to lower cost while strengthening the staff training at different levels and enhancing the knowledge in watches and the service standards of the frontline staff. Efforts were also made to upgrade the management model and build up a talent pool to foster a world-class professional sales force for expanding market share. During the period under review, Elegant relocated a single-brand boutique of A. Lange & Söhne to the outlet at International Finance Centre in order to reduce rental costs. Meanwhile, Elegant continued to strengthen its marketing campaigns. Resources were committed to collaborating more closely with a broadened portfolio of international brands in advertising, VIP events and other promotional activities. Social networking platforms such as Facebook, Weibo and WeChat were developed to establish and maintain sound interaction with consumers, aiming to enhance their awareness of and loyalty for Elegant and hence uplift the international reputation of "Elegant" brand.

In light of the adjustment stage of the high-end consumer goods industry in Hong Kong, we anticipate that rental costs may start to decline in the second half of the year. Elegant will, by capitalising on its strengths, follow the pace of the market, identify opportunities, save cost and generate income to capture more market share and improve profitability under the adverse market condition.

Taiwan

The Group's retail business in Taiwan was in the process of network building and nurturing. Clinging to a similar sales strategy as in Mainland China, the Group focused on the sales of mid-end and mid-to-high-end watches in Taiwan. The Group operated a total of 52 retail outlets in Taiwan as at 30 June 2016, mainly located in prime districts including Taipei, Taichung, Kaohsiung, Hsinchu and Chiayi. Except for one "Elegant" shop which sells top-end watches and certain single-brand boutiques, all other retail outlets are "Hengdeli" shops which sell mid-end and mid-to-high-end watch brands like Certina, Hamilton, Longines, Rado, TAG Heuer and Tissot, etc.

During the period under review, the sales in Taiwan remained stable and have not deviated much from previous year. Currently, the target consumers in Taiwan are mainly local customers. It is expected that Mainland tourists travelling to Taiwan and their consumption will be affected by a number of objective factors. Therefore, significant improvement in the sales of renowned watches in Taiwan will not be expected in the second half of the year.

Watch Accessories Industrial Chain

The Group is devoted to the development of the watch accessories industrial chain in both upstream and downstream. After integration and overall arrangement for about two years, the Group has currently established a new business model comprising upstream and downstream operations of the watch accessories industrial chain mainly spanning from watchcase and watchband manufacturing, packaging products, to commercial space design, production and decoration. A number of our branches and subsidiaries have earned goodwill in their respective fields. A wide customer base covering China, Switzerland, the U.S. and other nations in the Asia Pacific region has been established. Co-operation with brand suppliers was very close and a good collaborative relationship with mutual trust and interest sharing has been formed.

During the period under review, the Group has increased its investment in watch accessories business, by expanding its production of watchcases and other items promoting watch sales. The Group has also expanded a watchband factory to achieve annual production of over a million pieces. At the same time, a breakthrough was made in the Group's exporting business which involved completion of sample manufacturing of the items promoting sales for several world-famous watch brands and the exportation of such items has commenced. The construction of information management system was further enhanced. Modernized office automation systems have been launched in branches and subsidiaries. Production automation has been updated timely and a corporate management system developed jointly with an ERP management company has been adopted gradually by branches and subsidiaries. During the period under review, although the sales of renowned watches were stagnant, the sales of the Group's watch accessories business increased as compared with the corresponding period of last year thanks to its tireless efforts, which further improved the overall market competitiveness of the Group.

In the second half of the year, the Group will further improve its industrial management and technology. In particular, opportunities in technological advancement concerning Industry 4.0 will be sought in order to promote the use of production automation and semi automation to raise labor productivity. The Group will seek to develop new technics and new products to satisfy market demand; on the other hand, it will deepen co-operation with brand suppliers. The Group is confident that the watch accessories business will turn into an important business arm of the Group and bring increasingly strong driving forces to the development of the Group.

E-Commerce

"censh.com" is a media-based e-commerce cross-platform of the Group that runs its major flagship 盛时.com (www.censh.com). "censh.com" draws together a number of mobile internet software including WeChat, Weibo and other mobile communication applications and provides one-stop solution for six major functions, namely e-commerce, ERP, product data management, customer resources management, call center and WeChat by capitalising on advanced technology. It offers a comprehensive online to offline service experience to watch lovers.

During the period under review, the comprehensive launch of an integrated system consisting of interactive platforms such as O2O, CRM system, WeChat and Weibo facilitated the watch sales by ways of guiding the flows of people to shop online. At the end of 2015, "censh.com" was comprehensively put online. Since then and till 30 June 2016, approximately 200 outlets of the Group have adopted reservations for try-on service system of "censh.com" and the sales from the booking for try-on service and the total number of the service orders have increased rapidly. Meanwhile, the network platform of "censh.com" has achieved significant results in relation to the improvement of interaction between the watch sales of the Group and its customer services.

盛时.com inherits the values of "enthusiasm, innovation, mutual trust, self-actualization". Unlike traditional e-commerce operators who stress "speed" and "low price", "censh.com" is not only a website for interactive online and offline sales of watches, but also a personal assistant for consumers to buy watches. Meanwhile, it is also a platform for communication among customers and a culture carrier for the dissemination of the watch culture. Its emphasis is on "experience", "authenticity" and "service" and its missions are to provide the most accurate and most thoughtful services to consumers and to diffuse the ideas of buying watches as gifts, as tokens, and a way to pursue stylish life.

Customer Service and Maintenance

"Cutting-edge technology, joint warranty network, efficient management, and considerate services" are the solemn commitments made by the Group to consumers.

As the top-notch leading retail group for internationally renowned watch brands, the customer service network of the Group has been integrated and is comprehensive. Coupled with the continuing training provided by brand suppliers to the Group's technical personnel, the human resources policy of recruiting talents worldwide has always ensured the Group to have its own elite technicians and stay at the cutting edge of maintenance expertise internationally. The warranty covering the Greater China region including Mainland China, Hong Kong, Macau and Taiwan, as well as the interactive customer service network consisting of "repairs and maintenance service centres", "repair service stations" and "repair service points", ensure the delivery of widespread all-round services to customers. The service hotline 4008 acts as the Group's centralised customer service channel for the general public, offering timely advice and providing customers with assurance and confidence.

High-calibre maintenance technicians are the foundation of the Group's customer services. During the period under review, the Group designated maintenance technicians to attend overseas training courses for a number of times, and maintained good partnerships with brand suppliers in Switzerland and watch maintenance technical schools in foreign countries like Sweden and Japan, so as to secure consistent supply of high-calibre maintenance technicians. Also, the scale of maintenance technical training courses in China was also expanded, with overseas senior technicians in charge of course planning and teaching, so as to provide stringent training for the front-line maintenance technicians in a timely and phased manner. As a result, the Group's high level customer services on par with the international standards are guaranteed.

During the period under review, the integration of customer services of the Group was further deepened. The information system of customer service management (CSMS) was officially put online and a unified brand image of customer service was gradually improved in all regions. Besides the repair and maintenance centres in Beijing, Shanghai and Hong Kong, the Group has been establishing repair and maintenance centres in provincial capital cities in order to provide more convenient services to consumers. Regional expansion of our service network has been speeded up and become more efficient. As a result, regional sales increased soundly as compared with the corresponding period last year.

Both for brand suppliers and consumers, more emphasis is being put on the integration of the global services of internationally renowned watch brands. As the linking bridge between brand suppliers and consumers, the Group has continued to win their confidence with comprehensive service coverage. Capitalising on its large online warranty system and high-tech service quality, the Group continues to broaden and deepen the cooperation with these brands. During the period under review, the Group also entered into watch maintenance agent agreements with six brands of MGI, namely Coach, Hugo Boss, Juicy Couture, Lacoste, Scuderia Ferrari and Tommy Hilfiger. As at 30 June 2016, the Group has become the maintenance agent for 72 international brands such as brands from the SWATCH Group and LVMH Group, of which the Group is the exclusive maintenance agent for 48 brands.

Brand Distribution

The Group has about 400 wholesale customers in over one hundred cities across China, distributing and exclusively distributing world-famous branded watches including Hamilton, Certina, Balmain, Tissot, Mido, and CK.

In the brand distribution business, the Group has always adjusted the brands distributed timely and sought cooperation with brand suppliers and retailers by adopting the most market-oriented approach, leveraging each other's strengths to strive for a coordinated division of labour in the integration of sale and supply. During the period under review, the total value of brand distribution by the Group continued to slow down in light of the difficult market environment. Nonetheless, the Group worked closely with brand suppliers to respond to the changing market by actively adjusting brand distribution strategies and streamlining and improving inventory mix for a healthy and sustainable development of the brands in Mainland China. At the same time, based on joint market research, a number of incentive policies more closely aligned with market needs and sales plans tailor-made based on regional characteristics were developed, in order to provide retailers with more comprehensive and caring services to stimulate their enthusiasm in the retail end.

The Group has maintained strong partnerships with brand suppliers as well as numerous retailers. Backed by their extensive and tremendous support, the Group has achieved harmonious and mutually beneficial development.

III. Social Responsibility and Human Resources

As the cornerstone of its corporate management and social responsibility, the Group has always been advocating the entrepreneurship spirit of "mutual respect, shouldering responsibility, close collaboration and ongoing innovations" under the people-oriented core value.

As at 30 June 2016, the Group had a total of 8,642 (at 30 June 2015: 9,306) employees in Mainland China, Hong Kong and Taiwan. The Group is always committed to developing and adding value to human resources. The Group implements a standard recruitment system and allocates resources to training of various kinds for managerial staff, front-line service staff and maintenance technicians, which covers, among others, the art of management, sales skills, brand knowledge and service awareness, with an aim to enhance the knowledge, marketing skills and service capability of our staff. The Group also works with our brand suppliers to provide front-line service staff and maintenance technicians with regular training in brand knowledge and maintenance expertise.

The Group offers a competitive remuneration package and various incentives to all employees, and regularly reviews the structure of relevant mechanisms to cope with corporate development needs. Options and awarded shares are granted to the general management staff and associates of the Company in recognition of their contributions to the Group and as an incentive for their greater future commitment. The Group also offers other benefits to its employees, including pension plans, MPF plans, insurance schemes, housing and meal allowances.

Under a solid human resources assurance system, the Group boasts a number of senior salespeople and senior repair technicians, and certain staff members were awarded the "Capital Labour Medal", "Principal Technician of the City" and the "May 1st Labour Medal".

The Group actively implements the concept of a "paperless" office by using an online OA system to improve its administrative functions. Environmental protection is one of the top priorities for the Group's sustainable development. During the period under review, subsidiaries of the Group's industrial segment were in strict compliance with national regulations. Reports on pollutants were submitted regularly to environmental authorities as required. All pollutant emissions including sewage and gas passed annual inspection and met national standards.

As the largest internationally renowned branded watch retailer group in the world, the Group has maintained sound business relationships with many world-renowned watch brand suppliers over the years, including SWATCH Group, LVMH Group, RICHEMONT Group, ROLEX Group and KERING Group. During the period under review, the Group was engaged in the distribution of over 50 internationally renowned brands from the above five major brand suppliers and other independent watchmakers. The branches and subsidiaries of the Group carried out strict quality control processes on products to align with national quality standards completely, fully safeguarding the interests of clients and consumers.

As a pacesetter in the timepiece industry, apart from its efforts in achieving business results and creating brand value, the Group spares no effort in making a presence in public welfare activities. The Group has conscientiously made contributions to education, healthcare, sports and other welfare undertakings through its donations to The Community Chest of Hong Kong, Po Leung Kuk of Hong Kong, Hong Kong Red Cross, Huangpu District Government of Shanghai and Xinhua Compassion Education Foundation in China.

IV. Outlook

In the second half of 2016, due to various uncertainties, the global economy will remain sluggish. Meanwhile, the Chinese economy is at a crucial stage of transition from old to new growth drivers and a stage of economic transformation and upgrading, thus still suffering from heavy downward pressure. We do not anticipate significantly better sales of watches in the Greater China region as compared with the first half of 2016. However, the Group will benefit from the favourable long-term fundamentals in economic development in China, the gradual recovery in consumption power of Mainland China visitors to Hong Kong, and the rental adjustments. By continuously leveraging its core competitiveness, the Group will identify new opportunities to achieve breakthroughs and expand business despite the current headwinds and challenges.

Under the guidance of the philosophy of "pragmatic yet innovative", the Group will keep moving forward by sticking to the principle of "maintaining stable and healthy growth and seeking sustainable development". The Group will endeavor to keep its renowned watch sales healthy and stable and, on the other hand, will put more effort to facilitate the rapid development of watch accessories industrial chain. Meanwhile, the Group will put our heads together and all our efforts to explore, aiming to identify a new development mode, pursuant to which the Group can achieve steady and sustainable growth under the new normal, and generate greater value for the shareholders and the community at large.

DIVIDEND DISTRIBUTION

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2016.

EQUITY-LINKED AGREEMENTS

Share Award Scheme

On 25 March 2015, a share award scheme (the "Share Award Scheme") was adopted by the Company to recognise the contributions of certain participants to the Company and to attract suitable personnel for the growth and further development of the Company.

Subject to any early termination as may be determined by the Board, the Share Award Scheme shall be valid for a term of ten (10) years commencing on the adoption date. The Board may select any participants, other than any excluded participants, for participation in the Share Award Scheme and determine the award amount for the purchase of the awarded shares to be awarded to the selected participants. The Board is entitled to impose any conditions (including a period of continued service within the Group), as it deems appropriate in its absolute discretion with respect to the entitlement of the selected participants to the awarded shares. No consideration for the awarded shares is needed to be paid by the selected participants to the Company. The Board shall not make any further award of awarded shares which will result in the nominal value of the shares awarded by the Board under the Share Award Scheme exceeding 10% of the issued share capital of the Company as at the adoption date. The maximum number of shares which may be awarded to a selected participant under the Share Award Scheme in a 12-month period shall not exceed 0.5% of the total issued share capital of the Company as at the adoption date or such number of shares as determined by the Board from time to time.

The Share Award Scheme shall terminate on the earlier of the 10th anniversary date of the adoption date or such date of early termination as determined by the Board.

During the period under review, the Company granted 6,252,000 awarded shares to the employees of the Group (3 of them being the executive Directors) on 22 April 2016. The closing price of the awarded shares of the Company on the reference date was HKD0.8. The vesting date of the awarded shares was 29 April 2016. Details of the grant of awarded shares are as follows:

	Number of awarded shares (share)
Independent third parties	3,612,000
Connected persons	
– Mr. Zhang Yuping	1,000,000
– Mr. Huang Yonghua	820,000
– Mr. Lee Shu Chung, Stan	820,000
Total	6,252,000

Details of the Share Award Scheme are set out in the announcements of the Company dated 25 March 2015 and 22 April 2016.

Share Option Scheme

On 27 August 2005, a share option scheme (the "Old Share Option Scheme") was adopted by the Company to grant options to selected participants as incentives or rewards for their contributions to the Group.

Details of the options granted by the Company under the Old Share Option Scheme are as follows:

Options granted in 2011

Name of grantee	Date of grant	Exercise period	Exercise price *(HKD)*	Closing price of the shares immediately before the date of grant *(HKD)*	Number of options as at 1 January 2016	Number of options exercised during the period	Number of options cancelled during the period	Number of options lapsed in accordance with the terms of the options or the share option scheme during the period	Number of options outstanding as at 30 June 2016	Percentage of the number of options to the total share capital of the Company
Director	–	–	–	–	–	–	–	–	–	–
Other eligible participants	30 September 2011	30 September 2014 to 29 September 2016	2.66	2.71	385,000	–	–	–	385,000	0.008%
Total					385,000	–	–	–	385,000	0.008%

At the annual general meeting held on 15 May 2015, the new share option scheme of the Company (the "New Share Option Scheme") was adopted conditionally and the Old Share Option Scheme was terminated on the date of the new one becoming unconditional and coming into effect, being 19 May 2015. Pursuant to the terms of the Old Share Option Scheme, any options which have been granted but not yet exercised or lapsed shall continue to be valid and exercisable in accordance with the terms of the Old Share Option Scheme.

The New Share Option Scheme was adopted by the Company to grant options to selected participants including but not limited to directors and employees of the Group as incentives or rewards for their contributions to the Group. Subject to any early termination as may be determined by the Board, the New Share Option Scheme shall be valid and effective for a term of ten (10) years commencing on the adoption date.

Under both the Old Share Option Scheme and the New Share Option Scheme, subject to the discretion of the directors, there is no minimum period for which an option must be held before it can be exercised. Each option has a validity of maximum 10 years after which the option shall lapse. The total number of shares issued and to be issued upon exercise of the options granted to the eligible participants in any 12-month period must not exceed 1% of the shares in issue. The exercise price shall not be less than the higher of: (i) the closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange on the date of offer of that option; (ii) the average of the closing prices per shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer of that option; and (iii) the nominal value of the shares.

Under the New Share Option Scheme, the grantee shall accept the option within ten days from the date of the offer to grant the share option and pay HKD1.00 to the Company as consideration for the grant upon acceptance of the option.

As at 30 June 2016, the issued share capital of the Company was 4,779,810,959 shares and the number of the options outstanding was 385,000 (2015: 385,000).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has always been committed to maintaining a high standard of corporate governance to ensure transparency, so that the interests of our shareholders and the cooperative development among our customers, employees and the Group can be safeguarded. The Company has adopted the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Listing Rules. The Company has in practice complied with the new requirements under the amendments to C.3.3 of the CG Code relating to risk management and internal control since 1 January 2016.

The Directors are of the opinion that the Company complied with the CG Code during the period under review, except for a deviation from the provision A.2.1. Given the existing corporate structure, the roles of the chairman and chief executive have not been separated, and both are performed by Mr. Zhang Yuping. Although the roles and duties of the chairman and chief executive have been performed by the same individual, all major decisions would only be made (where applicable) after consultation with the Board. There are three independent non-executive Directors in the Board which is in compliance with the requirements of rules 3.10(1), 3.10(2) and 3.10(A) of the Listing Rules. All of them possess adequate independence and therefore the Board considers that the Company has achieved balance of power and provided sufficient assurance for scientific decision-making.

PURCHASE, SALE OR REPURCHASE OF SECURITIES

During the period under review, the Company repurchased USD127,372,000 aggregate principal amount of senior notes by way of offer at a purchase price of USD1,012.50 per USD1,000 principal amount of the senior notes, for a total consideration of USD132,619,000. The repurchased senior notes had been cancelled. In addition, USD7,200,000 of such notes had been repurchased but had not cancelled.

The senior notes were issued in 2013 and shall become due in 2018 with an interest rate of 6.25% per annum. As at 30 June 2016, the Company still held an aggregate principal amount of USD211,428,000 in the senior notes and was subject to the terms of the indenture governing the senior notes.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities as at 30 June 2016.

DISCLOSURE OF INFORMATION ON THE WEBSITES OF THE COMPANY AND THE STOCK EXCHANGE

An interim report for the six months ended 30 June 2016 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the shareholders of the Company and published on the website of the Stock Exchange and the website of the Company in due course.

ACKNOWLEDGEMENT

The Directors would like to take this opportunity to express our sincere thanks to all the shareholders for their continuous support and to all our staff for their dedication and contribution to the Group during the reporting period.

GENERAL INFORMATION

As at the date of this announcement, the executive Directors are Mr. Zhang Yuping (Chairman), Mr. Huang Yonghua and Mr. Lee Shu Chung, Stan, the non-executive Directors are Mr. Shi Zhongyang and Ms. Chen Jun and the independent non-executive Directors are Mr. Cai Jianmin, Mr. Wong Kam Fai, William and Mr. Liu Xueling.

By Order of the Board
Zhang Yuping
Chairman

Hong Kong, 18 August 2016