亨得利
HENGDELI

HENGDELI HOLDINGS LIMITED
亨 得 利 控 股 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 3389)

2017 INTERIM RESULTS

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		
	2017	2016 (Restated)	YoY change
	RMB'000 **(Unaudited)**	*RMB'000* (Unaudited)	(%)
Continuing operations:			
Revenue	**1,056,753**	1,093,236	-3.3
Gross profit margin	**16.8%**	17.6%	-80bps
Loss for the period from continuing operations	**(8,185)**	(142,006)	94.2
Discontinued operations (see note 3):			
(Loss)/profit for the period from discontinued operations	**(124,128)**	262,727	-147.2
(Loss)/profit attributable to equity shareholders	**(195,655)**	90,186	-316.9

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 2017, 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 2017 – unaudited
(Expressed in Renminbi)

		Six Months ended 30 June	
		2017	2016
			(Restated)
	Note	***RMB'000***	*RMB'000*
Continuing operations:			
Revenue	*3*	**1,056,753**	1,093,236
Cost of sales		**(879,452)**	(901,141)
Gross profit	*3*	**177,301**	192,095
Other revenue	*4*	**5,789**	4,597
Other net income/(loss)	*4*	**68,966**	(15,278)
Distribution costs		**(122,180)**	(132,437)
Administrative expenses		**(63,717)**	(81,500)
Profit/(loss) from operations		**66,159**	(32,523)
Finance costs	*5(a)*	**(54,326)**	(91,303)
Profit/(loss) before taxation	*5*	**11,833**	(123,826)
Income tax	*6*	**(20,018)**	(18,180)
Loss for the period from continuing operations		**(8,185)**	(142,006)
Discontinued operations:			
(Loss)/profit for the period from discontinued operations	*7*	**(124,128)**	262,727
(Loss)/profit for the period		**(132,313)**	120,721

	Note	Six Months ended 30 June	
		2017	2016
			(Restated)
	Note	***RMB'000***	*RMB'000*
Attributable to:			
Equity shareholders of the Company			
– continuing operations		**(12,077)**	(147,022)
– discontinued operations		**(183,578)**	237,208
		(195,655)	90,186
Non-controlling interests			
– continuing operations		**3,892**	5,016
– discontinued operations		**59,450**	25,519
		63,342	30,535
(Loss)/profit for the period		**(132,313)**	120,721
Basic and diluted (losses)/earnings per share	*8*		
– continuing operations		**RMB(0.003)**	RMB(0.031)
– discontinued operations		**RMB(0.038)**	RMB0.050
		RMB(0.041)	RMB0.019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2017 – unaudited
(Expressed in Renminbi)

		Six Months ended 30 June	
		2017	2016
			(Restated)
	Note	***RMB'000***	*RMB'000*
(Loss)/profit for the period		**(132,313)**	120,721
Other comprehensive income for the period			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale securities: net movement in the fair value reserve	*10*	**44,525**	91,395
Exchange differences on translation of overseas subsidiaries' financial statements		**(61,134)**	(33,742)
Release of exchange reserve upon disposal of subsidiaries	*7(c)*	**52,192**	–
		35,583	57,653
Item that will not be reclassified subsequently to profit or loss:			
Exchange differences on translation of the Company's financial statements		**(34,030)**	29,140
Total comprehensive income for the period		**(130,760)**	207,514
Attributable to:			
Equity shareholders of the Company			
– continuing operations		**(9,139)**	(62,076)
– discontinued operations		**(183,578)**	239,055
		(192,717)	176,979
Non-controlling interests			
– continuing operations		**2,507**	5,016
– discontinued operations		**59,450**	25,519
		61,957	30,535
Total comprehensive income for the period		**(130,760)**	207,514

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2017 – unaudited
(Expressed in Renminbi)

		At 30 June 2017		At 31 December 2016	
	Note	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*
Non-current assets					
Investment properties			**146,941**		37,311
Other property, plant and equipment	*9*		**366,882**		1,561,199
			513,823		1,598,510
Intangible assets			**14,433**		73,758
Goodwill			**254,962**		455,827
Interest in joint ventures			**–**		58,323
Other investments	*10*		**237,437**		200,903
Prepayment and deposits	*12*		**9,669**		17,291
Deferred tax assets			**511**		139,806
			1,030,835		2,544,418
Current assets					
Inventories	*11*	**1,453,740**		5,607,412	
Trade and other receivables	*12*	**307,018**		1,366,222	
Cash and cash equivalents	*13*	**4,390,059**		2,791,572	
		6,150,817		9,765,206	
Assets classified as held for sale		**–**		273,494	
		6,150,817		10,038,700	
Current liabilities					
Trade and other payables	*14*	**279,447**		1,623,890	
Bank loans	*15*	**267,471**		2,641,387	
Senior notes	*16*	**767,516**		709,083	
Current taxation	*17*	**155,945**		32,196	
		1,470,379		5,006,556	
Liabilities classified as held for sale		**–**		32,570	
		1,470,379		5,039,126	
Net current assets			**4,680,438**		4,999,574
Total assets less current liabilities			**5,711,273**		7,543,992

	Note	At 30 June 2017 RMB'000	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000	At 31 December 2016 RMB'000
Non-current liabilities					
Bank loans	*15*	**88,557**		243,949	
Senior notes	*16*	**–**		790,116	
Deferred tax liabilities		**–**		143,478	
			88,557		1,177,543
NET ASSETS			**5,622,716**		6,366,449
CAPITAL AND RESERVES					
Share capital			**22,812**		22,841
Reserves			**5,538,881**		5,723,456
Total equity attributable to equity shareholders of the Company			**5,561,693**		5,746,297
Non-controlling interests			**61,023**		620,152
TOTAL EQUITY			**5,622,716**		6,366,449

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2017 – unaudited
(Expressed in Renminbi)

	Note	Six Months ended 30 June **2017** ***RMB'000***	 2016 *RMB'000*
Operating activities			
Cash generated from/(used in) operations		**1,146,006**	(38,109)
Income tax paid		**(145,629)**	(92,483)
Net cash generated from/(used in) operating activities		**1,000,377**	(130,592)
Investing activities			
Payment for the purchase of property, plant and equipment		**(53,602)**	(29,183)
Net proceed from disposal of discontinued operations	*7(c)*	**2,358,352**	–
Other cash flows arising from investing activities		**77,705**	34,614
Net cash generated from investing activities		**2,382,455**	5,431
Financing activities			
Redemption of senior notes	*16*	**(702,699)**	(916,112)
Other cash flows arising from financing activities		**(1,146,311)**	1,221,790
Net cash (used in)/generated from financing activities		**(1,849,010)**	305,678
Net increase in cash and cash equivalents		**1,533,822**	180,517
Cash and cash equivalents at 1 January	*13*	**2,942,229**	1,910,351
Effect of foreign exchange rates changes		**(85,992)**	12,159
Cash and cash equivalents at 30 June	*13*	**4,390,059**	2,103,027

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 (the "Stock Exchange"), 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 22 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 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 2016 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 2016 that is included in the interim financial report as comparative 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 2016 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 29 March 2017.

Key event

Pursuant to an announcement dated 30 December 2016, the Company entered into a sale and purchase agreement to dispose of its equity interests in Shanghai Xinyu Fine Watch Services Co., Ltd. and its subsidiaries ("Xinyu Group") and Harvest Max Holdings Limited ("Harvest Max") (collectively, the "Disposal Group").

Xinyu Group comprises the Group's mainland China retail segment, wholesale segment and watch repair and maintenance business (collectively, the "Mainland China Watch Business"). The very substantial disposal ("VSD") transaction was approved by independent shareholders on 25 April 2017.

Pursuant to an announcement dated 28 June 2017, the Group has completed the sale of its equity interests in the Disposal Group for a cash consideration of RMB3,468 million. Details of this disposal were set out in note 7 to the consolidated financial information.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the group. None of these developments has had a material effect on how the group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

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. As disclosed in note 7, the segment Mainland China and Harvest Max are classified as discontinued operations.

- Wholesale segment: this segment distributes numerous world renowned brand watches in Mainland China and as disclosed in note 7, the wholesale segment is classified as a discontinued operation.

(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.

	Continuing operations							
	Retail				**All others**		**Sub-total**	
	Hong Kong		**Taiwan**					
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	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	**758,654**	805,229	**75,150**	75,737	**222,949**	212,270	**1,056,753**	1,093,236
Reportable segment revenue	**758,654**	805,229	**75,150**	75,737	**222,949**	212,270	**1,056,753**	1,093,236
Reportable segment gross profit	**124,551**	138,138	**21,305**	20,591	**31,445**	33,366	**177,301**	192,095

	Continuing operations							
	Retail				All others		Sub-total	
	Hong Kong		Taiwan					
	30 June 2017	31 December 2016	**30 June 2017**	31 December 2016	**30 June 2017**	31 December 2016	**30 June 2017**	31 December 2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Reportable segment assets	**1,145,281**	1,275,659	**186,734**	172,111	**121,725**	98,725	**1,453,740**	1,546,495

	Discontinued operations									
	Retail		Wholesale		Harvest Max		All others		Sub-total	
	Mainland China									
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	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	**3,016,179**	2,770,126	**1,613,719**	1,523,766	**528,306**	442,594	**56,353**	53,976	**5,214,557**	4,790,462
Inter-segment revenue	**–**	–	**2,197,417**	2,121,712	**–**	–	**–**	13,145	**2,197,417**	2,134,857
Reportable segment revenue	**3,016,179**	2,770,126	**3,811,136**	3,645,478	**528,306**	442,594	**56,353**	67,121	**7,411,974**	6,925,319
Reportable segment gross profit	**884,645**	811,372	**198,814**	174,182	**464,299**	384,798	**39,141**	36,293	**1,586,899**	1,406,645

	Discontinued operations									
	Retail		Wholesale		Harvest Max		All others		Sub-total	
	Mainland China									
	30 June 2017	31 December 2016	**30 June 2017**	31 December 2016	**30 June 2017**	31 December 2016	**30 June 2017**	31 December 2016	**30 June 2017**	31 December 2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Reportable segment assets	**2,479,563**	2,560,035	**1,374,753**	1,532,301	**90,455**	82,513	**11,191**	12,434	**3,955,962**	4,187,283

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

(b) Reconciliations of reportable segment profit or loss

	Continuing operations		Discontinued operations		Total	
	2017	2016	**2017**	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
For the six months ended 30 June						
Revenue						
Total revenues for reportable segments	**833,804**	880,966	**7,355,621**	6,858,198	**8,189,425**	7,739,164
Revenue for other segments	**222,949**	212,270	**56,353**	67,121	**279,302**	279,391
Elimination of inter-segment revenue	**–**	–	**(2,197,417)**	(2,134,857)	**(2,197,417)**	(2,134,857)
Consolidated revenue	**1,056,753**	1,093,236	**5,214,557**	4,790,462	**6,271,310**	5,883,698
Profit						
Total gross profit for reportable segments	**151,296**	158,729	**1,547,758**	1,370,352	**1,699,054**	1,529,081
Profit for other segments	**26,005**	33,366	**39,141**	36,293	**65,146**	69,659
	177,301	192,095	**1,586,899**	1,406,645	**1,764,200**	1,598,740
Other revenue	**5,789**	4,597	**58,207**	76,731	**63,996**	81,328
Other net income/(loss)	**68,966**	(15,278)	**6,793**	(3,210)	**75,759**	(18,488)
Distribution costs	**(122,180)**	(132,437)	**(1,152,715)**	(1,056,389)	**(1,274,895)**	(1,188,826)
Administrative expenses	**(63,717)**	(81,500)	**(95,506)**	(81,592)	**(159,223)**	(163,092)
Other operating income	**–**	–	**770**	–	**770**	–
Finance costs	**(54,326)**	(91,303)	**(32,296)**	(12,215)	**(86,622)**	(103,518)
Share of profits of joint ventures	**–**	**–**	**245**	334	**245**	334
Consolidated profit/(loss) before taxation	**11,833**	(123,826)	**372,397**	330,304	**384,230**	206,478

4 OTHER REVENUE AND NET INCOME/(LOSS)

	Six Months ended 30 June	
	2017	2016
		(Restated)
	RMB'000	*RMB'000*
Other revenue		
Continuing operations:		
Interest income	**495**	467
Government grants	**562**	1,161
Rental income	**1,958**	1,174
Others	**2,774**	1,795
	5,789	4,597
Discontinued operations:		
Interest income	**5,824**	9,510
Government grants	**39,337**	27,126
Rental income	**3,858**	4,716
Dividend income from unlisted investments	**–**	25,554
Others	**9,188**	9,825
	58,207	76,731
	63,996	81,328

	Six Months ended 30 June	
	2017	2016
		(Restated)
	RMB'000	*RMB'000*
Other net income/(loss)		
Continuing operations:		
Net foreign exchange gain	**2,983**	1,341
Net loss on redemption of senior notes *(note 16)*	**(13,339)**	(16,509)
Net gain/(loss) on disposal of fixed assets	**88**	(110)
Net gain on disposal of a subsidiary	**79,234**	–
	68,966	(15,278)
Discontinued operations:		
Net foreign exchange gain/(loss)	**6,930**	(3,438)
Net (loss)/gain on disposal of fixed assets	**(137)**	228
	6,793	(3,210)
	75,759	(18,488)

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	Six Months ended 30 June	
	2017	2016
		(Restated)
	RMB'000	*RMB'000*
Continuing operations:		
Interest expense on bank loans	**17,240**	14,753
Interest on senior notes *(note 16)*	**32,740**	73,684
Bank charges	**4,346**	2,866
	54,326	91,303
Discontinued operations:		
Interest expense on bank loans	**28,754**	9,668
Bank charges	**3,542**	2,547
	32,296	12,215
	86,622	103,518

(b) Other items

	Six Months ended 30 June	
	2017	2016
		(Restated)
	RMB'000	*RMB'000*
Continuing operations:		
Amortisation	**392**	380
Depreciation	**17,104**	16,166
Operating lease charges in respect of properties		
– minimum lease payments	**74,251**	81,853
Discontinued operations:		
Amortisation	**5,870**	5,632
Depreciation	**46,601**	53,336
Operating lease charges in respect of properties		
– minimum lease payments	**53,774**	60,512
– contingent rents	**229,777**	217,934
	283,551	278,446

6 INCOME TAX

	Six Months ended 30 June	
	2017	2016
		(Restated)
	RMB'000	*RMB'000*
Continuing operations:		
Current tax		
Hong Kong profits tax	**(740)**	2,949
Mainland China income tax	**82,764**	7,432
Taiwan and Macau income tax	**–**	21
Sub-total	**82,024**	10,402
Deferred taxation	**(62,006)**	7,778
	20,018	18,180

	Six Months ended 30 June	
	2017	2016
		(Restated)
	RMB'000	*RMB'000*
Discontinued operations:		
Current tax		
Hong Kong profits tax	**1,176**	63
Mainland China income tax	**87,002**	82,835
Sub-total	**88,178**	82,898
Deferred taxation	**2,470**	(15,321)
	90,648	67,577
	110,666	85,757

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2016: 16.5%) to the six months ended 30 June 2017.

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 DISCONTINUED OPERATIONS

As disclosed in Note 1 and Note 3, on 30 December 2016, the Group entered into a sale and purchase agreement to disposal of its equity interest in the Disposal Group. The disposal was completed on 28 June 2017, on which date control of the Disposal Group passed to the acquirer.

The consolidated profit for the period from the discontinued operations is set out below. The comparative figures in the condensed consolidated statement of profit or loss have been restated to re-present.

	Six Months ended 30 June	
	2017	2016
		(Restated)
	RMB'000	*RMB'000*
Profit of the discontinued operations for the period	**281,749**	262,727
Loss on disposal of discontinued operations	**(405,877)**	–
	(124,128)	262,727

(a) Results of discontinued operations

	Six Months ended 30 June	
	2017	2016
		(Restated)
	RMB'000	*RMB'000*
Revenue	**5,214,557**	4,790,462
Cost of sales	**(3,627,658)**	(3,393,817)
Other revenue#	**58,207**	76,731
Other net income/(loss)#	**6,793**	(3,210)
Distribution costs#	**(1,152,715)**	(1,056,389)
Administrative expenses#	**(95,506)**	(81,592)
Other operating income	**770**	–
Finance costs#	**(32,296)**	(12,215)
Share of profits of joint ventures	**245**	334
Income tax	**(90,648)**	(67,577)
Profit from discontinued operations for the period	**281,749**	262,727
Attributable to:		
Equity shareholders of the Company	**222,299**	237,208
Non-controlling interests	**59,450**	25,519

\# During the period ended 30 June 2017, other revenue, distribution costs, administrative expenses and finance costs include consolidated adjustments amounting to RMB(7,871,000), RMB404,000, RMB385,000 and RMB9,143,000, respectively.

During the period ended 30 June 2016, other net loss, distribution costs, administrative expenses and finance costs include consolidated adjustments amounting to RMB20,280,000, RMB858,000, RMB(5,358,000) and RMB37,994,000, respectively.

(b) Cash flows used in discontinued operations

	Six Months ended 30 June	
	2017	2016
		(Restated)
	RMB'000	*RMB'000*
Net cash generated from/(used in) operating activities	**961,163**	(3,175)
Net cash generated from/(used in) investing activities	**583,076**	(330,958)
Net cash (used in)/generated from financing activities	**(2,037,175)**	183,181
Net cash flow for the period	**(492,936)**	(150,952)

(c) **Analysis of assets and liabilities of the Disposal Group**

	At 30 June 2017 *RMB'000*
Investment properties	**55,539**
Other property, plant and equipment	**936,033**
Intangible assets	**57,672**
Goodwill	**200,866**
Interest in joint ventures	**61,068**
Other investments	**2,324**
Deferred tax assets	**128,635**
Inventories	**3,912,798**
Trade and other receivables	**1,172,814**
Cash and cash equivalents	**1,109,533**
Trade and other payables	**(1,777,432)**
Bank loans	**(1,485,000)**
Current taxation	**(38,560)**
Deferred tax liabilities	**(77,445)**
Net assets disposed of	**4,258,845**
Loss on disposal of discontinued operations:	
Consideration received in cash	**3,467,885**
Net assets disposed of	**(4,258,845)**
Non-controlling interests	**574,750**
Withholding tax in relation to the disposal of Xinyu Group *(note 17)*	**(137,475)**
Cumulative exchange differences in respect of the net assets of the subsidiaries reclassified from equity to profit or loss on loss of control of the subsidiaries	**(52,192)**
Loss on disposal	**(405,877)**
Net cash inflow arising on disposal:	
Consideration received in cash	**3,467,885**
Cash and cash equivalents disposed of	**(1,109,533)**
Net cash inflow	**2,358,352**

8 (LOSSES)/EARNINGS PER SHARE

(a) Basic (losses)/earnings per share

The calculation of basic (losses)/earnings per share is based on the (loss)/profit attributable to equity shareholders of the Company of RMB(195,655,000) (six months ended 30 June 2016: RMB90,186,000) and the weighted average of 4,774,182,427 ordinary shares (six months ended 30 June 2016: 4,774,215,574 ordinary shares) in issue during the interim period.

(b) Diluted (losses)/earnings per share

The calculation of diluted (losses)/earnings per share amount for the six months ended 30 June 2017 is based on the (loss)/profit attributable to equity shareholders of the Company of RMB(195,655,000) (six months ended 30 June 2016: RMB90,186,000) and the weighted average number of ordinary shares outstanding of 4,774,182,427 shares (six months ended 30 June 2016: 4,774,215,574).

The calculation of diluted (losses)/earnings per share amount for the six months ended 30 June 2017 and 2016 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 (losses)/earnings per share amount during the period.

9 OTHER PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group mainly incurred decoration and construction costs with a total amount of RMB41,501,000 (six months ended 30 June 2016: RMB30,135,000).

10 OTHER INVESTMENTS

	At 30 June 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Listed investment in equity securities	**236,937**	198,579
Unlisted investment, at cost	**500**	2,324
	237,437	200,903

During the six months ended 30 June 2017, the fair value of listed investment in equity securities increased by RMB44,525,000 (six months ended 30 June 2016: RMB91,395,000), amounting of which is determined based on the share prices of the available-for-sale securities and recognised as a credit to other comprehensive income.

11 INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	At 30 June 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Raw materials	**14,811**	29,149
Work in progress	**60,936**	36,279
Finished goods	**1,377,993**	5,624,497
	1,453,740	5,689,925
Reclassification to assets classified as held for sale	**–**	(82,513)
	1,453,740	5,607,412

12 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 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Current assets		
Current	**110,391**	939,657
Less than 1 month past due	**15,572**	64,251
1 to 3 months past due	**483**	14,634
More than 3 months but less than 12 months past due	**278**	12,000
More than 12 months past due	**2,639**	3,131
Trade debtors, net of allowance for doubtful debts	**129,363**	1,033,673
Prepayments and other receivables	**177,655**	363,809
	307,018	1,397,482
Reclassification to assets classified as held for sale	**–**	(31,260)
	307,018	1,366,222
Non-current assets		
Prepayments and deposits	**9,669**	17,291
	316,687	1,383,513

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

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

13 CASH AND CASH EQUIVALENTS

As at 31 December 2016 and 30 June 2017, all of the Group's cash and cash equivalents in the consolidated statement of financial position represented cash at bank and cash in hand.

14 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 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Within 1 month	**125,188**	895,782
Over 1 month but less than 3 months	**16,133**	314,312
Over 3 months but less than 12 months	**89**	12,148
Over 1 year	**16**	12,088
	141,426	1,234,330
Other payables and accrued expenses	**114,527**	375,283
Advance receipts from customers	**23,494**	46,758
	279,447	1,656,371
Reclassification to assets classified as held for sale	**–**	(32,481)
	279,447	1,623,890

15 BANK LOANS

	At 30 June 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Bank loans within one year or on demand		
– Secured	**563**	541
– Unsecured	**266,908**	2,640,846
	267,471	2,641,387
Bank loans after one year		
– Secured	**88,557**	90,095
– Unsecured	**–**	153,854
	88,557	243,949
	356,028	2,885,336

At 30 June 2017, the banking facilities of certain subsidiaries were secured by mortgages over their land and buildings with an aggregate carrying value of RMB106,570,000 (31 December 2016: RMB113,839,000).

16 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. 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 2016	1,499,199
Interest charged during the period	32,740
Derecognised due to redemption by the Company during the period	(689,360)
Interest paid during the period	(45,276)
Foreign exchange loss	(860)
Foreign currency translation difference	(28,927)
As at 30 June 2017	767,516

In March 2017, the Group redeemed, by way of market acquisition, notes with a principal amount of USD100,000,000, for a total consideration of USD102,153,000 (equivalent to RMB: 702,699,000).

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 RMB13,339,000 on redemption of senior notes in the Group's consolidated statement of profit or loss.

In July 2017, all the outstanding Notes with the principal amount of USD111,428,000 had been redeemed at a price of USD116,593,000 by the Company.

17 CURRENT TAXATION

	At 30 June 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Withholding tax payable	**137,475**	–
Income tax payable	**18,470**	32,196
	155,945	32,196

Upon the disposal of Xinyu Group, the corresponding withholding tax in relation to the disposal of RMB137,475,000 had been recognised based on the surplus of the cash consideration of RMB3,284,684,000 for acquiring the Xinyu Group over the respective PRC subsidiary's paid-in capital, which is planned to be paid by the Group in the second half of year 2017.

18 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

(i) Pursuant to the announcement dated 28 July 2017, the Board declared the Special Dividend in relation to the very substantial disposal and connected transaction of RMB0.25 per Share (equivalent to HKD0.28 per Share) as disclosed in the circular of the Company dated 29 March 2017. It is expected that the Special Dividend shall be paid on or about 1 September 2017 in Hong Kong dollar.

(ii) Except for the above Special Dividend, there is no interim dividend has been declared after the interim period.

(b) Purchase of own shares

For the six months ended 30 June 2017, a total of 26,512,000 shares were repurchased on the Stock Exchange at an aggregate consideration of HKD18,795,000 (equivalent to RMB16,563,000) and related transaction costs of HKD45,000 (equivalent to RMB40,000).

The 6,512,000 repurchased shares were cancelled in June 2017 and accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. Pursuant to section 37(4) of the Companies Law of the Cayman Islands, an amount equivalent to the par value of the shares cancelled of RMB29,000 was transferred from share premium to the capital redemption reserve. The premium paid on the repurchase of the shares of RMB3,994,000 was charged to share premium. The 20,000,000 repurchased shares had not been cancelled by the end of the period, an amount equivalent to the cash consideration of the repurchased shares of RMB12,563,000 was charged to capital reserve.

(c) Equity settled share-based transactions

No share option was exercised during the six months ended 30 June 2017 (2016: Nil).

(d) Shares purchased and 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 2017, the Company purchased 5,000,000 shares at cash consideration of HKD4,612,000 (equivalent to RMB4,050,000). The consideration paid for the purchase of the Company's shares is reflected as a decrease in the capital reserve of the Company.

For the six months ended 30 June 2017, the Company granted 5,684,000 shares at nil consideration to the Group's employees under 2015 share award scheme, of which 1,400,000 shares were granted to the Company's directors.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.

19 CAPITAL COMMITMENTS

	At 30 June 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Authorised but not contracted for	**–**	5,160

20 RELATED PARTY TRANSACTIONS

The Group has transactions with joint ventures, which are jointly held by the Group and the Swatch Group (Hong Kong) Limited. 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	
	2017	2016
	RMB'000	*RMB'000*
Lease expenses to a joint venture	**2,850**	3,055
Payments made on behalf of joint ventures	**506**	3,969
Payments made by joint ventures	**5,431**	2,429

MANAGEMENT DISCUSSION AND ANALYSIS

During the first half of 2017, China's economy was mixed with opportunities and challenges. With the beginning of economic recovery on one hand and the return of economic slowdown on the other hand, the operating environment has shown no sign of substantial recovery. Confronted with various risks and challenges, the Group has adhered to its established policy of steady and healthy growth, seeking long-term development based on existing businesses so as to safeguard shareholders' interests.

I. Financial Review

Material Investment, Acquisition and Disposal

The Company has completed a very substantial disposal and connected transaction during the period under review. The Company sold to Mr. Zhang Yuping, the chairman and executive director of the Company, 100% interest in 上海新宇鐘錶服務有限公司 (translated as Shanghai Xinyu Fine Watch Service Co., Ltd. for illustration only), and 75.54% interest in Harvest Max Holdings Limited (collectively, the "Disposal Group"), at an aggregate cash consideration of approximately RMB3.5 billion (the "Disposal"). The purposes which were taken into consideration by the Company at the time of the disposal were mainly to release the Company's high risk in its financial position and focus on high potential growth segments including the luxurious niche brands. The Company believes that the Disposal will effectively reduce the Group's financial risks and currency risks as well as achieve a healthier financing model to ensure the safety of the Company and lay a new foundation for future development. For further information on the Disposal, please see the circular "Very Substantial Disposal And Connected Transaction" dated 29 March and the Notes to the Unaudited Interim Financial Report attached hereto.

After the completion of the Disposal, the Group's current businesses mainly cover the sales of internationally renowned watches in Hong Kong, Macau and Taiwan and the manufacturing of watch accessories. The items stated hereinafter are all within this scope of business.

Revenue

As at 30 June 2017, the Group recorded revenue of RMB1,056,753,000 (the six months ended 30 June 2016: RMB1,093,236,000), representing a year-on-year decrease of 3.3%, among which retail sales amounted to RMB833,804,000 (the six months ended 30 June 2016: RMB880,966,000), representing a year-on-year decrease of 5.4%; the revenue from watch accessories and other businesses amounted to RMB222,949,000 (the six months ended 30 June 2016: RMB212,270,000), representing a year-on-year increase of 5.0%.

The watch sales showed signs of recovery during the first half of 2017, but the overall operating environment has shown no sign of substantial recovery. However, the production and sales of the Group's watch accessories business increased due to a series of reforms and innovations.

Breakdown of Revenue:
(for the six months ended 30 June)

	2017		2016	
	RMB'000	*%*	*RMB'000*	*%*
Retail Business				
Hong Kong	**758,654**	**71.8**	805,229	73.7
Taiwan	**75,150**	**7.1**	75,737	6.9
Watch accessories manufacturing and others	**222,949**	**21.1**	212,270	19.4
Total	**1,056,753**	**100**	1,093,236	100

Gross profit and gross profit margin

As at 30 June 2017, the Group's gross profit amounted to approximately RMB177,301,000 (six months ended 30 June 2016: RMB192,095,000), representing a year-on-year decrease of 7.7%. Gross profit margin was approximately 16.8% (six months ended 30 June 2016: 17.6%), representing a year-on-year decrease of 80bps. The decreases were mainly due to the increased flexibility of sales discounts resulted from the fierce market competition and subdued market environment.

Loss for the period

During the period under review, the Group recorded a loss amounted to about RMB132,313,000 (six months ended 30 June 2016: profit of RMB120,721,000). Loss attributable to equity shareholders amounted to about RMB195,655,000 (six months ended 30 June 2016: profit of RMB90,186,000). Decrease in the profit was mainly due to net of non-recurring profits tax on the disposal and decreased gross profit margin.

Financial status and net debt to equity ratio

The Group maintained a sound and stable financial position. As at 30 June 2017, the Group had total equity of RMB5,622,716,000 (at 31 December 2016: RMB6,366,449,000) and net current assets of RMB4,680,438,000 (at 31 December 2016: RMB4,999,574,000), with cash and cash equivalents of RMB4,390,059,000 (at 31 December 2016: RMB2,942,229,000) and total bank loans of RMB356,028,000 (at 31 December 2016: RMB2,885,336,000). As at 30 June 2017, no bank loans bore interests at fixed rates (at 31 December 2016: RMB1,251,000,000, ranging from 3.90% to 5.00%), and the remaining bank loans bore interests at floating rates ranging from 1.70% to 3.06% (at 31 December 2016: 1.66% to 2.56%). As at 30 June 2017, approximately 0% (at 31 December 2016: 43%), 60% (at 31 December 2016: 20%), 0% (at 31 December 2016: 32%) and 40% (at 31 December 2016: 5%) of bank loans were denominated in RMB, HKD, USD and NTD, respectively. The maturity profile of bank loans is set out in notes to the Unaudited Interim Financial Report. 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 2017, the aggregate principal amount of the USD-settled senior notes due in 2018 of the Company was approximately USD111,428,000 (at 31 December 2016: USD211,428,000). Combining the net amount of the senior notes with bank loans, the Group's total debt amounted to RMB1,123,544,000 (at 31 December 2016: RMB4,384,535,000). The net debt to equity ratio of the Group was zero (at 31 December 2016: 22.7%). It established a solid foundation for the further business expansion of the Group.

The Group adopts prudent treasury policies in financial and cash management, manages bank credit availability and monitors 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 2017, the Group had land and buildings equivalent to RMB106,570,000 (at 31 December 2016: RMB113,839,000) pledged as security for mortgage.

Contingent liabilities

As at 30 June 2017, the Group had no material contingent liabilities (at 31 December 2016: nil).

Current assets

As at 30 June 2017, the current assets of the Group amounted to approximately RMB6,150,817,000 (at 31 December 2016: RMB10,038,700,000), comprising inventories of approximately RMB1,453,740,000 (at 31 December 2016: RMB5,689,925,000), trade and other receivables of approximately RMB307,018,000 (at 31 December 2016: RMB1,397,482,000), cash and cash equivalents of approximately RMB4,390,059,000 (at 31 December 2016: RMB2,942,229,000).

As at 30 June 2017, cash and cash equivalents of approximately 2% (at 31 December 2016: 51%), 97% (at 31 December 2016: 48%) and 1% (at 31 December 2016: 1%) were denominated in RMB, HKD and other currencies, respectively.

Current liabilities

As at 30 June 2017, the current liabilities of the Group amounted to approximately RMB1,470,379,000 (at 31 December 2016: RMB5,039,126,000), comprising bank loans of approximately RMB267,471,000 (at 31 December 2016: RMB2,641,387,000), trade and other payables of approximately RMB279,447,000 (at 31 December 2016: RMB1,656,371,000, and current tax payable of approximately RMB155,945,000 (at 31 December 2016: RMB28,710,000).

Capital structure

The Company's capital structure is composed of issued share capital, reserves and accumulated profits. As at 30 June 2017, the issued share capital of the Company was 4,773,298,959 shares, (at 31 December 2016: 4,779,810,959 shares) with reserves and accumulated profits of RMB5,538,881,000 (at 31 December 2016: RMB5,723,456,000) in total.

Dividends

Pursuant to the Company's announcement dated 28 July 2017, special dividend of RMB0.25 per share (HKD0.28 per share) will be distributed by the Company to all shareholders whose names appear on the register of members of the Company on the record date of 16 August 2017. The Board does not recommend the payment of any interim dividend for the period ended 30 June 2017 (for the six months ended 30 June 2016: Nil).

II. Business Review

During the period under review, the Group's business primarily focused on the sale of internationally renowned branded watches, related customer services and maintenance in Hong Kong, Macau and Taiwan and watch accessories manufacturing.

Retail Network

The Group's retail network mainly located in Hong Kong, Macau and Taiwan, where retail stores mainly included "Elegant", "Hengdeli" and certain single-brand boutiques. "Elegant" is mainly located in Hong Kong, selling high-end internationally renowned brands, "Hengdeli" is mainly located in Taiwan, selling mid-end and mid-to-high-end internationally renowned brands. The Group operated a total of 62 retail outlets in Hong Kong, Macau and Taiwan as at 30 June 2017, as detailed below:

	As at 30 June 2017		
	Hong Kong and Macau	**Taiwan**	**Total**
Elegant	**5**	**1**	**6**
Hengdeli	**–**	**31**	**31**
Brand boutiques	**7**	**18**	**25**
Total	**12**	**50**	**62**

The Group has maintained sound business relationships with various world-renowned brand watch suppliers over the years, including SWATCH Group, LVMH Group, RICHEMONT Group and KERING Group, etc. As at 30 June 2017, the Group was engaged in the distribution of over 50 international brands from the above four major brand suppliers and other independent watchmakers, including Breguet, Bulgari, Cartier, Girard-Perregaux, Harry Winston, IWC, Jaeger-LeCoultre, Longines, Mido, Omega, Parmigiani, Tissot, Vacheron-Constantin, Zenith, etc. During the period under review, the Group continued to step up its efforts in aligning the brands to enhance its brand portfolio, paving the way for long-term business development and stabilizing overall sales performance.

Hong Kong and Macau

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, Piaget, Parmigiani, Vacheron Constantin, Zenith, etc. To adapt to the changes in the mix and consumption patterns of visitors to Hong Kong in recent years, the Group also started to deploy multi-layer brand positioning in Hong Kong, introducing certain mid-to-high-end brands in order to expand market share and maintain its leading position in the region.

During the period under review, the business environment in Hong Kong has started to show signs of economic recovery on one hand and return of economic slowdown on the other. Overall, Hong Kong's retail sector was still lackluster despite the recent positive signs in the retail market. According to the retail statistics released by the Hong Kong Government at the end of June 2017, the value of sales of watches & jewelries and other precious gift items increased as compared with the same period of last year, showing a sign of improvement in the Hong Kong market. During the period under review, the Group's sales in Hong Kong region is still in decline, but the decrease has effectively narrowed down.

Elegant focused on refined management during the period under review, including merging of single-brand boutiques to lower operating 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. 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 used 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 the "Elegant" brand.

As at 30 June 2017, Elegant operated a total of 12 retail outlets in Hong Kong, of which 5 were multi-brand "Elegant" shops and 7 were single-brand boutiques or image stores, mainly located in prime commercial districts such as Tsim Sha Tsui, Central and Causeway Bay. During the period under review, an "Elegant" multi-brand shop was opened on Yun Ping Road, Causeway Bay where has all long been a commercially prosperous district. The opening of this shop is expected to contribute to the increase of the Group's sales in Hong Kong.

According to the relevant statistics released by the Census and Statistics Department of Hong Kong, the number of visitors to Hong Kong is gradually returning to stable conditions and local consumption demands are also increasing. The retail market in Hong Kong has begun to turn up after having bottomed out and these have provided good preconditions for the Group's development in Hong Kong. During the second half of the year, the Group will continue to tap into the full potential and explore and enhance in various ways the cooperation with brand suppliers. Elegant will leverage on its own advantages and seize business opportunities at the new historical starting point to explore for more market share and profits.

The business environment in Macau has witnessed substantial positive changes during the period under review. According to the statistics released by the Macau Government, the lottery industry in Macau has shown the signs for a better future, the revenue of which has recorded month-on-month increase for eleven months in a row with a good momentum of growth. All these are bound to promote the development of local tourism industry and retail business.

During the period under review, the Group entered into a lease contract with a famous international hotel in Macau in preparation for opening an internationally renowned watch retail shop. The Group believes that under the good momentum in the macro economy, the Group's sales in Macau will usher in a healthy growth along with that in Hong Kong.

Taiwan

During the period under review, the Group's retail business in Taiwan was in the process of network building and nurturing, focusing on the sales of mid-end and mid-to-high-end watch brands. The Group operated a total of 50 retail outlets in Taiwan as at 30 June 2017, 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, Tissot, etc.

During the period under review, the retail sector in Taiwan remains stable and does not have much change compared to that of last year. The main sales target is still local customers. Through cautious planning, the Group opened an "Elegant" store at Section 5, Chungshiao East Road in the downtown area of Taipei in May 2017. The store was a self-owned property. The opening of the store saves a considerable amount of rental costs while embodying the Group's strategic goal of in-depth development in the Taiwan region. After the opening, the store has been highly acclaimed in respects of taste and sales by consumers and suppliers, which is expected to bring in more new customers in the future to contribute to the increase of the Group's market share in the Taiwan region.

With the even closer economic and trade contacts between Taiwan, Mainland China and Hong Kong, the Group believes that the further fusion of economics and cultures in Mainland China, Hong Kong, Macau and Taiwan areas will encourage more tourists from places including Mainland China and Hong Kong to go to Taiwan for sightseeing and shopping, bringing new opportunities for development of the Group's retail business in Taiwan region.

Watch accessories industrial chain

The Group has a rather mature industrial chain for watch accessories manufacturing, mainly spanning from the manufacturing of watch packaging products to commercial space design, production and decoration. The factories are mainly located in Shanghai, Guangzhou and Dongguan. Our branches and subsidiaries have earned a solid reputation in their respective fields, forming tight relationships, mutual trust and interest sharing with brand suppliers. A wide customer base covering China, Switzerland, the United States and other nations in the Asia Pacific region etc. has been established.

In light of the Group's proactive and progressive strategy, the Group continued to progress well in the construction of watch accessories industrial chain during the period under review. With the increasing industrial investment and the enriching customer resources, the Group has also collaborated more closely with brand suppliers. Stable increase was achieved in the Group's export business, the concept of "one-stop commercial space" (one-stop design, production and decoration) is being accepted by more and more brand suppliers in the industry. The information management system has been launched in branches and subsidiaries and production automation has been timely updated. During the period under review, the Group's two new factories located in Suzhou and Guangzhou respectively have been formally put into operation, and both are designed in compliance with the latest requirements of Environmental Impact Assessment (EIA). Meanwhile, highly qualified specialists are engaged for technical innovation. Despite the overall downturn in sales of renowned watch, through unremitting efforts, the Group's industrial chain of watch accessories has made a growth in sales during the period under review, an increase of 5.0% as compared with the same period of last year. The overall market competitiveness has achieved a better result, demonstrating its huge development potential.

"Made in China 2025" has formed an early form since its announcement and implementation two years ago. During the second half of 2017, the Group will actively respond to the Chinese government's industrial strategy, fully seize the development opportunities brought by the industry 4.0, and further strengthen the industrial management together with technical R&D and innovation. The Group will promote positive use of automated and semi-automated production technology to improve labor productivity, and continue to develop new techniques and products to meet the market demands. The Group believes that the watch accessories industrial chain has become an indispensable part in the business of the Company, which injects a new impetus for the growth of the Company and safeguards the sustainable business development of the Company.

Customer Service and Maintenance

"Cutting-edge technology, efficient management, and considerate services" are the solemn commitments made by the Group to consumers, providing customers with assurance and confidence. Coupled with the continuing training provided by brand suppliers to the Group's technical personnel, the human resources policy of recruiting talents worldwide has ensured the Group to have its own elite technicians and stay at the cutting edge of maintenance expertise internationally.

The watch repairs and maintenance centers covering Hong Kong and Taiwan ensure the timely delivery of widespread all-round after-sale services to customers. During the period under review, Elegant engaged top international watch technicians to provide international first-rate watch repair and maintenance services so as to strive for perfection in customer service. The Group serves consumers with superior skills and great enthusiasm.

Business of the Discontinued Operations

The Company has completed a very substantial disposal and connected transaction on 28 June 2017. The Company sold to Mr. Zhang Yuping, the chairman and executive director of the Company, 100% interest in 上海新宇鐘錶服務有限公司 (translated as Shanghai Xinyu Fine Watch Service Co., Ltd. for illustration only), and 75.54% interest in Harvest Max Holdings Limited ("Harvest Max"). The sold businesses mainly include the sale of watches in Mainland China, customer service and maintenance in Mainland China, and the Harvest Max segment.

The sale of watches includes retail and brand distribution. The retail outlet "Prime Time" has been positioned to sell mid-end and mid-to-high-end internationally renowned branded watches in Mainland China, including Hamilton, Certina, Tissot, Mido, and CK. Harvest Max is primarily engaged in sales of jewelries and a small quantity of watches. The Group's business in Mainland China and the business of Harvest Max have seen stable increase during the period under review.

III. Social Responsibility and Human Resources

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

As at 30 June 2017, the Group had a total of 2,407 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. Share options and awarded shares are granted to the general management staff and relevant persons 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 MPF plans, insurance schemes, housing and meal allowances.

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.

The Group has maintained sound business relationships with many world-renowned watch brand suppliers over the years, including SWATCH Group, LVMH Group, RICHEMONT Group and KERING Group, etc. During the period under review, the Group was engaged in the distribution of over 50 internationally renowned brands from the above four 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.

Apart from its efforts in achieving business results and creating brand value, the Group spares effort in making a presence in public welfare activities. The Group has conscientiously made due 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, and Hong Kong Red Cross.

IV. Outlook

It is expected that the economic condition will remain unstable during the second half of this year. However, the Hong Kong government survey data indicates a gradually improving overall retail condition. 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 put more effort to facilitate the rapid development of the watch accessories industrial chain; on the other hand, we are standing on a new starting point, will put our heads together and all our efforts to explore, aiming to identify a new development mode, and generate greater value for the shareholders and the community at large.

Dividend Distribution

Pursuant to the Company's announcement dated 28 July 2017, special dividend of RMB0.25 per share (HKD0.28 per share) will be distributed by the Company to all shareholders whose names appear on the register of members of the Company on the record date of 16 August 2017. The Board does not recommend the payment of interim dividend for the six months ended 30 June 2017 (for the six months ended 30 June 2016: Nil).

Equity-linked Agreements

Share Award Scheme

On 25 March 2015, a 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 (the "Share Award Scheme").

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 5,684,000 awarded shares to 11 employees of the Group (2 of them being the executive directors) on 5 May 2017. The closing price of the awarded shares of the Company on the reference date was HKD0.91. The vesting date of the awarded shares was 12 May 2017. Details of the grant of awarded shares are as follows:

	Number of awarded shares (share)
Independent third parties	4,284,000
Connected persons	
– Mr. Huang Yonghua	600,000
– Mr. Lee Shu Chung, Stan	800,000
Total	5,684,000

Details of the Share Award Scheme are set out in the announcements of the Company dated 25 March 2015 and 5 May 2017.

Share Option Scheme

At the annual general meeting held on 15 May 2015, the share option scheme of the Company was adopted conditionally 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 (the "Share Option Scheme"). Subject to any early termination as may be determined by the Board, the Share Option Scheme shall be valid and effective for a term of ten (10) years commencing on the adoption date.

Under the 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 of Hong Kong Limited (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 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.

Options granted in 2017

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 2017	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 2017	Percentage of the number of options to the total share capital of the Company
Director	–	–	–	–	–	–	–	–	–	–
Other eligible participants	20 January 2017	20 January 2020 to 19 January 2022	0.91	0.91	–	–	–	–	2,000,000	0.042%
Total					–	–	–	–	2,000,000	0.042%

As at 30 June 2017, the issued share capital of the Company was 4,773,298,959 shares and the number of the options outstanding was 2,000,000 shares (2016: nil).

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 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 after consultation with and (where applicable) through 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 a balance of power and provided sufficient assurance for scientific decision-making.

PURCHASE, SALE OR REPURCHASE OF SECURITIES

During the period under review, the Company redeemed USD100,000,000 aggregate principal amount of senior notes at a total redemption price of USD102,152,777.78. The repurchased senior notes had been cancelled.

The USD-settled senior notes were issued in 2013 and shall become due in 2018 with an interest rate of 6.25% per annum. As at 26 June 2017, the Company still held an aggregate principal amount of USD111,428,000 in the senior notes and was subject to the terms of the indenture governing the senior notes. All the outstanding senior notes had been redeemed on 26 July 2017.

During the period under review, the Company repurchased a total of 26,512,000 (the first half of 2016: nil) listed shares on the Stock Exchange by way of acquisition from the market. The total consideration paid was approximately HKD18,840,000, including related expenses, the details are as follows:

Date of repurchase of shares	Number of shares repurchased	Highest price per share paid (HKD)	Lowest price per share paid (HKD)	Approximate aggregate consideration (HKD) (excluding related expenses)
1 June 2017	6,512,000	0.70	0.69	4,555,480
27 June 2017	4,000,000	0.72	0.71	2,860,000
28 June 2017	4,000,000	0.72	0.71	2,860,000
29 June 2017	6,000,000	0.72	0.70	4,260,000
30 June 2017	6,000,000	0.72	0.70	4,260,000

Among the repurchased shares, 6,512,000 shares had been cancelled on 15 June 2017, the remaining 20,000,000 shares had been cancelled on 6 July 2017.

The repurchases are in the interests of the Company and its shareholders as a whole with a view to enhancing the net assets value per share of the Company.

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 2017.

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

An interim report for the six months ended 30 June 2017 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.

By Order of the Board
Zhang Yuping
Chairman

Hong Kong, 22 August 2017

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.