Bonjour Holdings Limited
卓悦控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 653)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

The board (the "**Board**") of directors (the "**Director(s)**") of Bonjour Holdings Limited (the "**Company**") hereby announces the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2017 (the "**Period**" or "**review period**") (the "**Interim Results**"), together with comparative figures for the corresponding period in 2016. The Interim Results have not been audited, but have been reviewed by the audit committee of the Company (the "**Audit Committee**").

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended 30 June	
		2017	2016
		(Unaudited)	(Unaudited)
	Note	***HK$'000***	*HK$'000*
Turnover	2	**916,810**	1,010,425
Cost of goods sold		**(581,354)**	(602,789)
Gross profit		**335,456**	407,636
Other income	4	**23,050**	27,143
Distribution costs		**(22,318)**	(27,792)
Administrative expenses		**(380,305)**	(424,614)
Other operating expenses		**(89)**	(4,641)
Loss on disposal of available-for-sale financial assets		**(6,086)**	–
Loss from operations		**(50,292)**	(22,268)
Finance costs	5	**(7,412)**	(5,628)
Loss before tax		**(57,704)**	(27,896)
Income tax expense	6	**(46)**	(621)
Loss for the period	7	**(57,750)**	(28,517)
Attributable to owners of the Company		**(57,750)**	(28,517)
Loss per share	8		
Basic		**HK(1.7) cents**	HK(0.8) cent
Diluted		**HK(1.7) cents**	HK(0.8) cent

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Loss for the period	**(57,750)**	(28,517)
Other comprehensive income:		
Items that may be reclassified to profit or loss:		
Exchange differences arising on the translation of foreign operations	**(1,838)**	(440)
Investment revaluation reserve reclassified to profit or loss upon disposal of available-for-sale financial assets	**(3,600)**	–
Fair value change on available-for-sale financial assets	**(105,636)**	(120,558)
Other comprehensive income for the period, net of tax	**(111,074)**	(120,998)
Total comprehensive income for the period	**(168,824)**	(149,515)
Attributable to owners of the Company	**(168,824)**	(149,515)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	At 30 June 2017 (Unaudited) HK$'000	At 31 December 2016 (Audited) HK$'000
Non-current assets			
Property, plant and equipment		**752,209**	771,481
Rental and utility deposits		**34,191**	52,831
Available-for-sale financial assets		**126,023**	231,659
Deferred tax assets		**1,289**	1,289
		913,712	1,057,260
Current assets			
Inventories		**248,597**	225,133
Trade receivables	*10*	**32,663**	38,478
Rental and utility deposits		**76,275**	66,489
Prepayments, deposits and other receivables		**20,541**	22,255
Amount due from a related company		**5,826**	886
Available-for-sale financial assets		**–**	225,000
Current tax assets		**4,118**	3,547
Bank and cash balances		**212,917**	33,517
		600,937	615,305
Current liabilities			
Trade payables	*11*	**156,408**	148,750
Other payables, deposits received and accrued charges		**101,110**	97,502
Amounts due to related companies		**3,362**	316
Bank borrowings	*12*	**156,072**	157,688
Trade finance loans	*12*	**37,498**	35,259
Finance lease payables		**1,549**	1,853
Current tax liabilities		**8,725**	8,679
Bank overdrafts	*12*	**974**	–
		465,698	450,047
Net current assets		**135,239**	165,258
Total assets less current liabilities		**1,048,951**	1,222,518

	Note	At 30 June 2017 (Unaudited) *HK$'000*	At 31 December 2016 (Audited) *HK$'000*
Non-current liabilities			
Other payables and deposits received		**11,582**	16,335
Loan from a related company		**138,000**	138,000
Bank borrowings	*12*	**206,189**	205,431
Finance lease payables		**2,030**	2,778
Deferred tax liabilities		**2,802**	2,802
Long service payment liabilities		**3,604**	3,604
		364,207	368,950
NET ASSETS		**684,744**	853,568
Capital and reserves			
Share capital	*13*	**34,126**	34,126
Reserves		**650,618**	819,442
TOTAL EQUITY		**684,744**	853,568

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company									
	Share capital *HK$'000*	Share premium account *HK$'000*	Capital redemption reserve *HK$'000*	Merger reserve *HK$'000*	Statutory reserve *HK$'000*	Share-based payment reserve *HK$'000*	Foreign currency translation reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Retained profits *HK$'000*	Total equity *HK$'000*
Six months ended 30 June 2017										
At 1 January 2017 (Audited)	34,126	209,902	1,181	415	243	64,013	2,186	7,306	534,196	853,568
Total comprehensive income for the period	–	–	–	–	–	–	(1,838)	(109,236)	(57,750)	(168,824)
At 30 June 2017 (Unaudited)	34,126	209,902	1,181	415	243	64,013	348	(101,930)	476,446	684,744
Six months ended 30 June 2016										
At 1 January 2016 (Audited)	34,126	209,902	1,181	415	243	64,013	919	135,171	632,058	1,078,028
Total comprehensive income for the period	–	–	–	–	–	–	(440)	(120,558)	(28,517)	(149,515)
2015 final dividends paid	–	–	–	–	–	–	–	–	(3,413)	(3,413)
At 30 June 2016 (Unaudited)	34,126	209,902	1,181	415	243	64,013	479	14,613	600,128	925,100

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		Six months ended 30 June	
		2017	2016
		(Unaudited)	(Unaudited)
	Note	***HK$'000***	*HK$'000*
Net cash outflow from operating activities		**(31,764)**	(49,434)
Net cash inflow/(outflow) from investing activities		**211,699**	(2,848)
Net cash inflow/(outflow) from financing activities		**329**	(6,860)
Increase/(decrease) in cash and cash equivalents		**180,264**	(59,142)
Cash and cash equivalents at 1 January		**33,517**	97,153
Effect of foreign exchange rate changes		**(1,838)**	(440)
Cash and cash equivalents at 30 June		**211,943**	37,571
Analysis of cash and cash equivalents			
Bank and cash balances		**212,917**	37,571
Bank overdrafts	*12*	**(974)**	–
		211,943	37,571

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

These unaudited condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2016. The accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2016.

In the current Period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2017. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting polices, presentation of the Group's financial statements and amounts reported for the current Period and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

2. TURNOVER

Revenue recognized during the Period is as follows:

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Sales of merchandise	**916,810**	1,009,507
Commission income	**–**	918
	916,810	1,010,425

3. SEGMENT INFORMATION

The Group has carried on a single business, which is wholesaling and retailing of beauty and health-care products. Accordingly, there is only one single reportable segment of the Group which is regularly reviewed by the chief operating decision maker.

Geographical information:

The Group's revenue from external customers by location of operations and information about its non-current assets by location of assets are detailed below:

	Revenue		Non-current assets	
	Six months ended 30 June		At 30 June	At 31 December
	2017	2016	**2017**	2016
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Audited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**814,661**	902,462	**749,557**	768,406
Macau	**96,260**	101,214	**1,337**	1,524
PRC except Hong Kong and Macau	**5,889**	6,749	**1,315**	1,551
Consolidated total	**916,810**	1,010,425	**752,209**	771,481

4. OTHER INCOME

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Bank interest income	**6**	12
Rental income	**16,579**	18,232
Sundry income	**6,465**	8,899
	23,050	27,143

5. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest expense on bank borrowings	**3,853**	3,449
Interest expense on loan from a related company	**3,450**	2,070
Finance leases charges	**109**	109
	7,412	5,628

6. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax is required, since the Group has no assessable profit for the Period.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

The amount of income tax expense charged to the unaudited condensed consolidated statement of profit or loss represents:

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current tax		
Hong Kong Profits Tax	**–**	–
Overseas	**46**	621
	46	621

7. LOSS FOR THE PERIOD

The Group's loss for the Period is stated after charging/(crediting) the following:

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Costs of goods sold	**581,354**	602,789
Depreciation	**22,892**	25,293
(Gain)/loss on disposal of property, plant and equipment	**(11)**	55
Net exchange losses	**101**	4,586

8. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the following:

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Loss		
Loss for the purpose of calculating basic and diluted earnings per share	**(57,750)**	(28,517)

	2017	2016
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	**3,412,566,000**	3,412,566,000
Effect of dilutive potential ordinary shares arising from share options outstanding	**58,923,413**	54,328,597
Weighted average number of ordinary shares for the purpose of calculating diluted loss per share	**3,471,489,413**	3,466,894,597

The effects of potential ordinary shares are anti-dilutive for the Period.

9. DIVIDENDS

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Nil of proposed interim dividend (2016: HK0.1 cent per ordinary share)	**–**	3,413

10. TRADE RECEIVABLES

The Group's sales to wholesale customers are entered into on credit terms ranging from 60 to 120 days, and trade receivables under credit card sales are due within 150 days from the date of billings. The ageing analysis of trade receivables is as follows:

	At 30 June 2017 (Unaudited) ***HK$'000***	At 31 December 2016 (Audited) *HK$'000*
Wholesales debtors		
0 – 30 days	**2,512**	2,684
31 – 60 days	**1,743**	1,537
61 – 90 days	**740**	558
91 – 120 days	**792**	493
Over 120 days	**2,624**	3,539
	8,411	8,811
Trade receivables under credit card sales		
0 – 30 days	**10,376**	15,192
31 – 60 days	**2,663**	3,089
61 – 90 days	**2,483**	3,746
91 – 120 days	**2,581**	2,814
Over 120 days	**6,149**	4,826
	24,252	29,667
Total	**32,663**	38,478

11. TRADE PAYABLES

The ageing analysis of trade payables, based on the date of receipt of goods, is as follows:

	At 30 June 2017 (Unaudited) ***HK$'000***	At 31 December 2016 (Audited) *HK$'000*
0 – 30 days	**78,815**	79,155
31 – 60 days	**50,633**	51,356
61 – 90 days	**16,947**	10,811
91 – 120 days	**4,323**	1,795
Over 120 days	**5,690**	5,633
	156,408	148,750

12. BANK BORROWINGS

	At 30 June 2017 (Unaudited) ***HK$'000***	At 31 December 2016 (Audited) *HK$'000*
Short-term bank borrowings	**130,000**	120,000
Long-term bank borrowings	**232,261**	243,119
Trade finance loans	**37,498**	35,259
Bank overdrafts	**974**	–
	400,733	398,378

13. SHARE CAPITAL

	Number of shares	*HK$'000*
Authorised:		
Ordinary shares of HK$0.01 each		
At 31 December 2016 and at 30 June 2017	**10,000,000,000**	100,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
At 31 December 2016 and at 30 June 2017	**3,412,566,000**	34,126

14. LEASE COMMITMENTS

At the end of the reporting period, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	At 30 June 2017 (Unaudited) *HK$'000*	At 31 December 2016 (Audited) *HK$'000*
Within one year	**249,598**	319,970
In the second to fifth years, inclusive	**166,725**	227,445
After five years	**1,584**	3,785
	417,907	551,200

Operating leases payments represent rental payable by the Group for its retail shops. Leases are negotiated for the term of ranging from 1 to 6 years and rentals are fixed over the lease terms, but certain leases do include contingent rentals.

At the end of the reporting period, the total future minimum sublease rental receivable under non-cancellable operating subleases as follows:

	At 30 June 2017 (Unaudited) *HK$'000*	At 31 December 2016 (Audited) *HK$'000*
Within one year	**22,960**	22,420
In the second to fifth years, inclusive	**15,992**	9,579
	38,952	31,999

15. CONTINGENT LIABILITIES

	At 30 June 2017 (Unaudited) *HK$'000*	At 31 December 2016 (Audited) *HK$'000*
Guarantees given by banks for rental payment to landlords	**2,850**	4,687
Guarantees given by banks for vendors	**100**	100
	2,950	4,787

16. RELATED PARTY TRANSACTIONS

a) In addition to those related party transactions and balances disclosed elsewhere in the condensed consolidated financial statements, the Group had the following transactions with its related parties during the Period:

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Sales to related companies	**1,470**	850
Rental income from a related company	**12,892**	12,892
Licence income from a related company	**2,486**	2,486
Loan interest expense to a related company	**3,450**	2,070
Rental expense to an executive Director	**1,440**	1,440
Sales received on behalf of related companies	**2,536**	2,580

The executive Directors, Dr. Ip Chun Heng, Wilson and Ms. Chung Pui Wan are also the beneficial owners and executive Directors of the ultimate holding company of the related companies.

b) The remuneration of Directors and other members of key management during the Period was as follows:

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Key management personnel compensation:		
Fees	**302**	302
Basic salaries, allowances and benefits in kind	**5,467**	5,470
Discretionary bonuses	**180**	170
Retirement benefits scheme contributions	**204**	204
	6,153	6,146

MANAGEMENT DISCUSSION AND ANALYSIS

Results of the Group's Retail and Wholesale Business

In view of the current slow economic recovery and financial headwinds, the retail market remained sluggish. During the review period, the Group's retail and wholesale business recorded a turnover of HK$916.8 million (2016: HK$1,010.4 million), representing a decrease of 9.3% from the last corresponding period. Gross profit margin dropped from 40.3% to 36.6%. Operating loss for the Period amounted to HK$50.3 million while the operating loss for the previous period was HK$22.3 million. Including in the HK$50.3 million operating loss, there is a loss on disposal of available-for-sale financial assets amounting to HK$6.1 million. Excluding such one-time factor, the Group saw the operating loss narrowing down when comparing to the operating loss of the second half of 2016, from HK$55.6 million to HK$44.2 million. The Board has resolved not to declare any interim dividend (2016: HK0.1 cent per ordinary share) for the review period. The Group rationalised its retail network from 46 to 43.

Market Overview

Hong Kong's retail sales have been plummeting to all-time lows over the past few years. A continued slowdown of inbound tourism coupled with weakening local consumption power and a stronger United States dollar ("**USD**") have combined to produce lackluster sales for most major retailers. This situation was no exception for the Group during the first half of 2017.

The steep drop in mainland visitors continues to be one of the major reasons for the sluggish retail environment since the fourth quarter of 2015. Tourism has been hit since restrictions on individual travel were put in place reducing Shenzhen permanent residents to one-visit-per-week in the territory. According to the Hong Kong Tourism Board, 27.8 million people visited Hong Kong in the first six months of 2017. Although there was a slim improvement in tourism performance comparing to the corresponding period of last year, the latest figures remain daunting and challenging compared to 28.53 million during the first six months of 2014 and the record high of 6 million in August 2014. The reason for this weakness is today's inharmonious political climate in Hong Kong. Cross-border conflicts in Hong Kong also deterred visitors from shopping over the Period.

In addition, on the other hand, for the first half of 2017, it was provisionally estimated that the value of total retail sales was HK$218.4 billion, decreased by 0.6% compared with the first half of 2016, according to the Census and Statistics Department. The consumption behavior of mainland visitors has been changing over the past several years. They no longer consider high value, big ticket shopping as their top preference. Instead, they focus more on experiencing the city's culture and history in greater depth. Other various economic factors, such as the depreciation of the Renminbi ("**RMB**"), which weakened against the USD and Hong Kong dollars ("**HKD**"), prompted mainland shoppers to return to China and spend more on cheaper cosmetics and beauty products due to the country's lower tax policy on this consumer good category since October 2016. The relatively stronger HKD also made shopping more costly for locals while it became more attractive for people to travel and spend overseas.

Business Review

Retail Sales

Despite a slight increase in the number of visitor arrivals in the first half of 2017, the total amount of retail consumption was disappointing. One of the reasons was the change of consumption patterns of mainland visitors from being consumption-led in the past to more sightseeing-related activities recently. In response to current market trends, the Group has actively adjusted its product portfolio, product price and sales network, targeting today's customers' evolving tastes and preferences. The Group has also endeavoured to improve the procurement processes in order to enhance its competitiveness and stay ahead in the industry. To this end, the Group scheduled a number of exhibitions around the world in order to expand its sourcing network, kept track of customers' preferences from comments given by frontline staff and made plenty of referencing from market researches and industrial reports, then duly adjusted products to better satisfy consumers' changing tastes. This led to the Group's ongoing review to its product structure and adjusting its strategy to ensure customers' satisfaction.

E-Commerce

E-commerce has changed the consumption patterns of many people away from brick-and-mortar outlets to online stores. According to data from the JD Research Institute, Hong Kong's online shopping transactions have grown rapidly, so much that the overall amount of consumption has actually increased 2.3 times in two years. In response, the Group has actively strengthened its e-commerce sales channels. In addition to our official online shopping website and our long established shopping platforms at Tmall and WeChat, the Group has also cooperated with China-post Cross-border eCommerce Limited to launch the online cross-border shopping platform – www.bonjouro2o.com, which has further integrated online and physical stores. While mobile payment is gradually becoming popular in Hong Kong, the Group has introduced Apple Pay and Andriod Pay, and has extended to Alipay HK and WeChat Pay from currently servicing only the mainland customers to serve also our local Hong Kong customers.

Furthermore, customers now tend to receive information from online media as opposed to traditional sources. The rise of social media platforms like Whatsapp, Facebook, Facebook Messenger, Instagram, WeChat, Line, Skype and Weibo have made them mainstream media sources. The Group made good use of the popular media platforms to expand its sales channels by organising more marketing activities that drew in O2O traffic to attract more sales. The Group also launched periodic promotional campaigns and special events online to enhance brand awareness, such as invitations to join VIP programmes by following our news, as a way to attract new potential customers. In the first half of 2017, the Group's online retail sales in Hong Kong and China markets recorded an increase of 2% from that of 2016.

Rental and Store Networks

Following the drop of mainland visitors arrival with since the last quarter of 2015 and their changing consumption patterns, shop rents have been gradually adjusting, especially those in the popular shopping areas. According to Cushman & Wakefield, rents in core retail areas continued to decline by 1.2% to 3.4% as compared between first and second quarter of 2017 and were expected to drop by another 5% in the second half of this year. The Central district saw the most severe drop in rents due to the vacancy rate rising to 7.1%. Sharply falling rents have left retailers with more affordable choices whether they return to popular shopping areas for greater opportunities or move to residential shopping areas with their stable customer base. Given this scenario, the Group has seized opportunities to renew at some of its existing premises at considerable concessionary rent reductions and to spread their store network to different neighbourhoods.

As at 30 June 2017, the Group had a combined overall store count in Hong Kong, Macau and Guangzhou of 43 (2016: 46). The retail store rent-to-turnover ratio improved to 20.4% (2016: 21.1%).

Brand Management

The Group remains at the forefront of the beauty products and cosmetics industry backed by a host of successful business strategies. The Group is now the distributor of 180 well-known global cosmetics, skincare and healthcare products, including Suisse Reborn, Dr. Bauer, Yumei, WOWWOW, Dr. Schafter and Auslin. During the Period, the Group has also noticed a rising demand for popular international parallel import products and products in the middle-to-low price range while a falling demand is seen for higher-priced products which are made up largely of our exclusive products. Therefore, we have not only strategically restructured our product portfolio but also adjusted our products pricing in order to cope with customer preferences and to maintain overall market competitiveness. Owing to the change of customers' appetites, the Group's exclusive product sales mix has underperformed during the Period, decreasing by 1.8% from first half of 2016.

In order to bolster brand awareness, the Group continued to invite celebrities to serve as private brand ambassadors, including Ms. Ada Choi (Suisse Reborn), Ms. Myolie Wu (Dr. Bauer), Miss Elanne Kwong (WOWWOW), Miss Tracy Chu (Yumei), Mr. Louis Cheung (Dr. Schafter), and Mr. Mak Cheung Ching (Auslin). The Group's brand image has benefited from the unique charm and beauty of all its representative ambassadors.

The Group also actively promotes the "Bonjour" brand through different innovative platforms and channels. Amid the tough environment, we realize that the loyalty of customers is the crucial element leading Bonjour outperforming in the industry. Thus, the Group has launched a new e-membership program to enhance customers' shopping experiences and their loyalty. Since the commencement in May 2016, the number of current members has already topped 230,000.

Staff Talent Training

The Group has been investing a great deal in human resources and talent training. In recent years, online shopping has become increasingly popular. In fact, the Vocational Training Council's retail human resources survey shows that the number of sales people for non-physical shops recorded almost 50% growth within the last two years. In order to better harmonise with our e-commerce development, the Group has arranged a dedicated training programme for non-physical shop staff to improve their professional knowledge and skills. At the same time, they have strengthened traditional brick-and-mortar shop staff training so customers can experience a more comprehensive array of shopping services. Superior staff quality will aid in drawing in more customers while deepening their loyalty. For this reason, it is necessary to work to achieve long-term developmental outcomes.

Outlook

Signs of Stabilisation in the Business Environment

While the retail sector has turned the corner after almost 20 months of decline, Bonjour believes that Hong Kong's retail market has bottomed out. Amidst strong headwinds prevailing in the market and taking into account various peripheral uncertainties, the short-term outlook for retail sales depends primarily on the pace of recovery in visitor arrivals. Seeing a slight upward trend in tourists numbers coupled with the recent satisfactory performance of the Hong Kong stock market, the Group has recorded an increase in turnover for the third quarter up to the date of this announcement. The Group remains cautiously optimistic up to the end of 2017.

Moreover, as private expenditure continues to expand steadily, we are more confident about local consumption demand. As such, the Group will launch more attractive promotional campaigns to stimulate local consumers' spending. However, this may not instantly produce significant positive results for our sales performance due to the appreciation of HKD against RMB and other hot travelling countries. Tourists and even local residents now still prefer outbound travel and spending in other countries.

Rental and Store Network

To further alleviate the pressure on the sluggish local market, the Group will continue to implement effective cost control strategies. The rental and property market have both entered a period of adjustment over the past three years. Six out of ten retailers plan to open new stores in Hong Kong in 2018 following a plunge in rents of 41.2% in core shopping districts from the market peak in 2014, according to JLL. Retailers often seek rent reductions in order to compensate for lower sales projections and weak spending on luxury items. Rents have fallen substantially but still need a considerable amount of correction to create equilibrium. Following the expiry of fixed terms on relatively costly stores, adjustments in rental outlays are expected to have a positive impact on the Group's net margins in the coming financial years. The Group will continue to closely monitor and analyse market changes in order to enhance its bargaining power and take advantage of emerging opportunities. This rental correction will also help the Group control operational costs, allocate more resources on improving store quality and eventually create a more impressive shopping experience.

In return, landlords appear to be more receptive to negotiation and more willing to offer flexible leasing terms. This is a great opportunity for the Group to be more cost effective in renewing existing shop tenancies as well as renting new shops. Taking advantage of new opportunities for rental negotiations, Bonjour will continue to renew existing prime retail space in the best locations with lower rental costs. On the other hand, the Group may expand into areas where we have no business footprint yet, by locating in the populated areas of the New Territories or inside those shopping malls with reasonable rent levels. We will also diversify our stores in different locations instead of solely focusing on particular areas. We will, however, continue to be careful and prudent in negotiating rental discounts when examining new leases or relocation in the future.

Moving forward with E-Commerce and O2O Business Models

Nurturing a new retail model that combines e-commerce with online-to-offline (O2O) platforms is more appealing than ever. China has risen to become the most popular cross-border e-commerce destination after outperforming the United States each year since 2013. According to The Ministry of Commerce, total value of e-commerce last year in China totalled RMB26.1 trillion, which comprised 39.2% of the total global volume. We continue to see growth in their online shopping trends thanks to a stabilising economy and better policy support. Therefore, the Group will strive to promote e-commerce platforms in order to attract regular online shoppers. By moving forward with the digital transformation of distribution channels, new shopping models will be created to bolster the long-term development of the Group.

The key concept for e-commerce is 'interaction'. In order to expedite customers' cross-border shopping experience, the Group will further strengthen its cooperation with the top prestigious social media platforms in mainland China, including Tmall and WeChat. Leveraging our partnerships, Bonjour will be able to learn more about different cultural and social market needs while we adapt to changes accordingly. We will also deliver the latest and trendiest global product news to attract new customers, leading to more sales and income for the Group. We will also take the initiative to upgrade our payment methods, using cross-border in-store payment servicing to facilitate our mainland customers' payment options, including Alipay HK and WeChat Pay. The Group will strive to reinforce various applications related to mobile technology in order to streamline unnecessary processes and enhance efficiency in settling payments and transactions. Better and quicker performing Apps will also help increase brand awareness and expand our customer base.

Timely Product Portfolio Adjustment

Bonjour remains a pioneer in the beauty and cosmetics products business even under the current recession in the retail sector. One of the keys in creating long-term relationships with our valued customers is strengthening and diversifying our in-house brand products. In today's ever-changing world, offering a wide variety of brands and products in order to cope with customer needs is a must for a one-stop shop retailer like us. Going forward, the Group will re-double its efforts to improve retail performance and recover market share by constantly enriching and adjusting our product portfolio. The Group will also continue evaluating and procuring the very finest products from all over the world, especially the latest trendy product mixes from South Korea, Japan, Europe and the United States. Moreover, timely review on our pricing strategy is also crucial to maintain our competitiveness in this market- and customer-driven cosmetic industry. To help us stay abreast of best-selling items, we will optimise our product procurement team by strengthening the training of our distribution agents. They will remain vigilant and be prepared by putting in extra effort in their sourcing procedures to best serve our customers.

Conclusion

Responding to today's major structural changes in the retail sector and consumer behaviour, Bonjour will continue to adopt pragmatic measures to overcome all challenges. To generate retail growth, the Group will continue to create smart strategic plans and seek out more business opportunities and projects. In order to further maximise the overall benefits and value for our shareholders, the Group will also continue to flexibly relocate its resources, explore more business partners and actively diversify its investment portfolio.

Financial Review

Liquidity and Financial Resources

As at 30 June 2017, the Group's cash and bank deposits amounted to HK$212.9 million (31 December 2016: HK$33.5 million). The Group's bank borrowings, loan from related company and finance lease payables as at 30 June 2017 were HK$503.8 million (31 December 2016: HK$505.7 million), out of which, HK$157.6 million (31 December 2016: HK$159.5 million) were repayable within next 12 months.

The Group's gearing ratio as at 30 June 2017 was 0.736 (31 December 2016: 0.592), and was calculated based on the Group's bank and other borrowings and finance lease payables, divided by total equity of HK$684.7 million (31 December 2016: HK$853.6 million). Total liabilities to shareholders funds was 121.2% (31 December 2016: 96.0%). The current ratio of the Group as at 30 June 2017 was 1.29 (31 December 2016: 1.37).

The Group services its debt primarily through the cash earned from its operation. Moreover, during the Period, the Group sold the available-for-sale financial assets and enhanced and strengthened the financial position and cash position of the Group. The Board believes that the Group has maintained sufficient working capital for its operation and future expansion.

Cash Flow

Net cash outflow from operations for the Period was HK$31.8 million (2016: HK$49.4 million). The loss before tax was HK$57.7 million. The total amount of non-cash items amounting to HK$22.7 million (mainly depreciation expense) and there was a net decrease in working capital of HK$2.3 million.

Net cash inflow from investing activities for the Period was HK$211.7 million (2016: outflow of HK$2.8 million), which mainly represented proceeds from disposal of available-for-sale financial assets.

Net cash inflow from financing activities for the Period was HK$0.3 million (2016: outflow HK$6.9 million), which mainly represented the increase in trade finance loans during the Period.

Contingent Liabilities

As at 30 June 2017, the Group had contingent liabilities totaling HK$3.0 million (31 December 2016: HK$4.8 million), which mainly represented guarantee given by bank for rental payment to landlords and vendors.

Foreign Exchange and Bank Borrowing Interest Rate Exposure

The Group has limited exposure to foreign exchange fluctuations as most of its assets, receipts and payments are principally denominated in HKD, Macau Pataca and Renminbi, with a few denominated in USD and Japanese Yen. The Group will continue to monitor its foreign exchange position on an on-going basis and, if necessary, will hedge the foreign exchange exposure by forward foreign exchange contracts. As at 30 June 2017, none of the Group's bank borrowings was denominated in foreign currency. The Group's bank borrowings were mainly on floating rate basis at short-term inter-bank offer rates.

As at 30 June 2017, the Group had short-term bank borrowings amounting to HK$130.0 million (31 December 2016: HK$120.0 million) and long-term bank borrowings amounting to HK$232.3 million (31 December 2016: HK$243.1 million). The bank borrowings were arranged at both fixed interest rate and floating interest rate.

Capital Structure

During the Period, the Company did not issue and allot new shares.

The total number of issued shares of the Company was 3,412,566,000 as at 30 June 2017.

Charge on Group Assets

As at 30 June 2017, certain of the Group's assets with a net book value of approximately HK$661.6 million (31 December 2016: HK$669.6 million) were pledged to secure banking facilities granted to the Group.

Material Acquisition or Disposal of Subsidiaries and Associated Companies

There was no material acquisition or disposal of subsidiaries and associated companies during the Period.

Significant Securities Investments

As at 30 June 2017, the Group had an available-for-sale financial assets with a total market value of HK$126.0 million, accounting for 8.3% of the Group's total assets (31 December 2016: HK$456.7 million, accounting for 27.3% of total assets). Throughout the Period, the Group has been holding only one single financial asset and the change on the fair value of such financial asset amounted to unrealized loss of HK$105.6 million for the Period (2016: HK$120.6 million).

During the Period, the Group disposed about half of the available-for-sale financial assets, recording a net loss for approximately HK$6.1 million, including the related cost upon disposal of such available-for-sale financial assets, there was HK$3.6 million being reclassified from investment revaluation reserve to profit and loss.

Such disposal has strengthened the Group's cash position and protect the Group from the current slow retail recovery headwinds. It also strengthened its flexibility when seeking future expansion opportunities.

Human Resources

The Group adheres to a strong belief that one of the most valuable assets of a corporation is its employees. As at 30 June 2017, the Group had approximately 960 (2016: 1,041) full-time and part-time employees in both Hong Kong and Macau. Staff costs including Directors' emoluments for the Period were HK$118.9 million (2016: HK$125.2 million).

The Group values its human resources and recognizes the importance of attracting and retaining qualified staff for its continuing success. Remuneration packages are generally structured by reference to market terms and individual qualifications. In addition, share options and discretionary bonuses are also granted to eligible employees based on individual's performance. The Group also provides mandatory provident fund schemes, medical insurance schemes, staff purchases discounts and training programs for our employees.

Dividends

The Board has resolved not to declare any interim dividend for the Period (2016: HK0.1 cent).

PURCHASE, SALE OR REDEMPTION OF SECURITIES

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company during the Period.

DISCLOSURE OF INFORMATION ON DIRECTORS

Pursuant to rule 13.51B(1) of the Listing Rules, the changes of information on the Directors are as follows:

Each of the independent non-executive Directors has entered into an appointment letter with the Company for a term of one year commencing from 1 July 2016 to 30 June 2017, which can be terminated by either party giving not less than one month's notice in writing. On 26 May 2017, the Board resolved to renew the appointment letter of each of the independent non-executive Directors for a term of one year commencing from 1 July 2017 to 30 June 2018.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors, except Mr. Chen Jianwen and Mr. Wan Yim Keung, Daniel, has entered into a service contract with the Company for an initial term of two years commencing from 1 July 2003, and will continue thereafter until terminated by either party giving not less than three months' notice in writing.

Each of the independent non-executive Directors has entered into an appointment letter with the Company for a term of one year commencing from 1 July 2017 to 30 June 2018, which can be terminated by either party giving not less than one month's notice in writing.

None of the Directors proposed for re-election at the annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation.

DIRECTORS' INTERESTS IN CONTRACTS

None of the Directors had a material interest, whether directly or indirectly, in any contract of significance subsisting during the Period to which the Company or any of its subsidiaries was a party.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code for the Period.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to the establishment of good corporate governance practices and procedures. Throughout the Period, the Group has complied with the code provisions prescribed in the Corporate Governance Code (the "**CG Code**") set out in the Appendix 14 to the Listing Rules, except for the deviation from the code provision A.2.1 which is explained in the following relevant paragraph.

CHAIRMAN AND CHIEF EXECUTIVE

According to the code provision A.2.1 of the CG Code, the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. During the Period, Dr. Ip Chun Heng, Wilson is both the chairman of the Board and the chief executive officer of the Company. The Board considered that Dr. Ip Chun Heng, Wilson has in-depth knowledge and experience in the retail sales and cosmetic product market and he is the most appropriate person. Notwithstanding the above, the Board will review the current structure from time to time. When at the appropriate time and if candidate with suitable leadership, knowledge, skills and experience can be identified within or outside the Group, the Company may make necessary arrangements.

AUDIT COMMITTEE

The Company has established an Audit Committee with written terms of reference. At present, members of the Audit Committee comprise three independent non-executive Directors, namely Mr. Wong Chi Wai, Dr. Chow Ho Ming and Mr. Lo Hang Fong. Mr. Wong Chi Wai is the chairman of the Audit Committee. During the Period, two meetings of the Audit Committee have been held. The Audit Committee has reviewed the effectiveness of both the external audit and internal control and also the risk management evaluation. The unaudited financial statements of the Group for the Period have been reviewed by the Audit Committee.

OTHER BOARD COMMITTEES

In addition to the Audit Committee, the Company has established a remuneration committee and a nomination committee on 16 September 2005. These board committees were formed to ensure maintenance of high corporate governance standards.

By order of the Board
Bonjour Holdings Limited
Ip Chun Heng, Wilson
Chairman and executive Director

Hong Kong, 25 August 2017

As at the date of this announcement, the executive Directors are Dr. Ip Chun Heng, Wilson, Ms. Chung Pui Wan, Mr. Chen Jianwen, Mr. Yip Kwok Li and Mr. Wan Yim Keung, Daniel; and the independent non-executive Directors are Mr. Wong Chi Wai, Dr. Chow Ho Ming and Mr. Lo Hang Fong.